FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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NORTEL NETWORKS CORP

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From _____ to _____

Commission file number: 001-07260

Nortel Networks Corporation

(Exact name of registrant as specified in its charter)

Canada *(State or Other Jurisdiction of Incorporation or Organization)*	**Not Applicable** *(I.R.S. Employer Identification No.)*
8200 Dixie Road, Suite 100 **Brampton, Ontario, Canada** *(Address of Principal Executive Offices)*	**L6T 5P6** *(Zip Code)*

Registrant' s Telephone Number Including Area Code (905) 863-0000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer' s classes of common stock as of July 25, 2006.

4,335,727,064 shares of common stock without nominal or par value

TABLE OF CONTENTS

All dollar amounts in this document are in United States dollars unless otherwise stated.

PART I

FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NORTEL NETWORKS CORPORATION

Condensed Consolidated Statements of Operations (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
		As restated *		As restated *
	(Millions of U.S. dollars, except per share amounts)			
Revenues	$2,744	$2,619	$5,126	$5,008
Cost of revenues	1,678	1,485	3,152	2,862
Gross profit	1,066	1,134	1,974	2,146
Selling, general and administrative expense	596	588	1,191	1,166
Research and development expense	489	488	967	962
Amortization of intangibles	6	2	11	4
In-process research and development expense	16	–	16	–
Special charges	45	92	50	106
(Gain) loss on sale of businesses and assets	10	11	(25)	33
Shareholder litigation settlement recovery	(510)	–	(491)	–
Operating earnings (loss)	414	(47)	255	(125)
Other income – net	51	74	120	128
Interest expense				
Long-term debt	(59)	(51)	(105)	(101)
Other	(11)	(1)	(35)	(4)
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies	395	(25)	235	(102)
Income tax benefit (expense)	(27)	9	(50)	(7)
	368	(16)	185	(109)
Minority interests – net of tax	1	(17)	10	(31)
Equity in net earnings (loss) of associated companies – net of tax	(3)	1	(5)	2
Net earnings (loss) from continuing operations	366	(32)	190	(138)
Net earnings (loss) from discontinued operations – net of tax	–	(1)	–	1
Net earnings (loss) before cumulative effect of accounting change	366	(33)	190	(137)
Cumulative effect of accounting change – net of tax (note 2)	–	–	9	–
Net earnings (loss)	$366	$(33)	$199	$(137)
Basic and diluted earnings (loss) per common share				
– from continuing operations	$0.08	$(0.01)	$0.05	$(0.03)
– from discontinued operations	0.00	(0.00)	0.00	0.00
Basic and diluted earnings (loss) per common share	$0.08	$(0.01)	$0.05	$(0.03)

* See note 3

The accompanying notes are an integral part of these condensed consolidated financial statements

NORTEL NETWORKS CORPORATION

Condensed Consolidated Balance Sheets (unaudited)

	June 30, 2006	December 31, 2005
	(Millions of U.S. dollars, except for share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$1,904	$2,951
Restricted cash and cash equivalents	646	77
Accounts receivable − net	2,785	2,862
Inventories − net	2,035	1,804
Deferred income taxes − net	348	377
Other current assets	833	796
Total current assets	8,551	8,867
Investments	209	244
Plant and equipment − net	1,574	1,564
Goodwill	2,588	2,592
Intangible assets − net	205	172
Deferred income taxes − net	3,728	3,629
Other assets	971	1,044
Total assets	$17,826	$18,112
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other accounts payable	$1,065	$1,180
Payroll and benefit-related liabilities	861	801
Contractual liabilities	258	346
Restructuring liabilities	111	95
Other accrued liabilities	4,517	4,200
Long-term debt due within one year	18	1,446
Total current liabilities	6,830	8,068
Long-term debt	3,752	2,439
Deferred income taxes − net	107	104
Other liabilities	5,238	5,935
Total liabilities	15,927	16,546
Minority interests in subsidiary companies	738	780
Guarantees, commitments and contingencies (notes 11, 12 and 18)		
SHAREHOLDERS' EQUITY		
Common shares, without par value − Authorized shares: unlimited; Issued and outstanding shares: 4,339,368,770 as of June 30, 2006 and 4,339,162,932 as of December 31, 2005	33,932	33,932
Additional paid-in capital	3,326	3,281
Accumulated deficit	(35,326)	(35,525)
Accumulated other comprehensive loss	(771)	(902)
Total shareholders' equity	1,161	786
Total liabilities and shareholders' equity	$17,826	$18,112

The accompanying notes are an integral part of these condensed consolidated financial statements

NORTEL NETWORKS CORPORATION
Condensed Consolidated Statements of Cash Flows (unaudited)

	Six months ended June 30,	
	2006	2005
		As restated *
	(Millions of U.S. dollars)	
Cash flows from (used in) operating activities		
Net earnings (loss)	$199	$(137)
Adjustments to reconcile net earnings (loss) to net cash from (used in) operating activities from continuing operations, net of effects from acquisitions and divestitures of businesses:		
Amortization and depreciation	136	160
Non-cash portion of shareholder litigation settlement recovery	(491)	–
Non-cash portion of special charges and related asset write downs	–	2
Non-cash portion of in-process research and development expense	16	–
Equity in net (earnings) loss of associated companies	5	(2)
Stock option compensation	53	36
Deferred income taxes	54	12
Cumulative effect of accounting change	(9)	–
Net (earnings) from discontinued operations	–	(1)
Other liabilities	159	181
(Gain) loss on sale or write down of investments, businesses and assets	(26)	17
Other – net	286	(77)
Change in operating assets and liabilities	(664)	(344)
Net cash from (used in) operating activities of continuing operations	(282)	(153)
Cash flows from (used in) investing activities		
Expenditures for plant and equipment	(177)	(124)
Proceeds on disposals of plant and equipment	89	10
Restricted cash and cash equivalents	(567)	9
Acquisitions of investments and businesses – net of cash acquired	(125)	(448)
Proceeds on sale of investments and businesses	111	167
Net cash from (used in) investing activities of continuing operations	(669)	(386)
Cash flows from (used in) financing activities		
Dividends paid by subsidiaries to minority interests	(31)	(24)
Increase in notes payable	27	38
Decrease in notes payable	(12)	(46)
Borrowings in loan payable	1,300	–
Repayment of long-term debt	(1,425)	–
Decrease in capital leases payable	(9)	(5)
Issuance of common shares	1	1
Net cash from (used in) financing activities of continuing operations	(149)	(36)
Effect of foreign exchange rate changes on cash and cash equivalents	53	(85)
Net cash from (used in) continuing operations	(1,047)	(660)
Net cash from (used in) operating activities of discontinued operations	–	34
Net increase (decrease) in cash and cash equivalents	**(1,047)**	**(626)**
Cash and cash equivalents at beginning of period	**2,951**	**3,685**
Cash and cash equivalents at end of period	**$1,904**	**$3,059**

* See note 3

The accompanying notes are an integral part of these condensed consolidated financial statements

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited)
(millions of U.S. dollars, except per share amounts, unless otherwise stated)

1. Significant accounting policies

Basis of presentation

The unaudited condensed consolidated financial statements of Nortel Networks Corporation ("Nortel") have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"), for the preparation of interim financial information. They do not include all information and notes required by U.S. GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the unaudited condensed consolidated financial statements are the same as those described in Nortel' s audited consolidated financial statements prepared in accordance with U.S. GAAP for the year ended December 31, 2005. The condensed consolidated balance sheet as of December 31, 2005 is derived from the December 31, 2005 audited financial statements. Although Nortel is headquartered in Canada, the unaudited condensed consolidated financial statements are expressed in U.S. dollars as the greater part of the financial results and net assets of Nortel are denominated in U.S. dollars.

Nortel makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Estimates are used when accounting for items and matters such as revenue recognition and accruals for losses on contracts, allowances for uncollectible accounts receivable and customer financing, receivables sales, inventory obsolescence, product warranty, amortization, asset valuations, impairment assessments, employee benefits including pensions, taxes and related valuation allowance, restructuring and other provisions, stock-based compensation and contingencies.

Nortel believes all adjustments necessary for a fair presentation of the results for the periods presented have been made and all such adjustments were of a normal recurring nature. The financial results for the three and six months ended June 30, 2006 are not necessarily indicative of financial results for the full year. The unaudited condensed consolidated financial statements should be read in conjunction with Nortel' s Annual Report on Form 10-K/ A for the year ended December 31, 2005 and Nortel' s Current Report on Form 8-K dated June 16, 2006, filed with the SEC and Canadian Securities Regulatory Authorities (together, the "2005 Annual Report").

Comparative figures

Certain 2005 figures in the unaudited condensed consolidated financial statements have been reclassified to conform to the 2006 presentation and certain 2005 figures have been restated as set out in note 3.

Recent accounting pronouncements

In February 2006, the United States Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 155, "Accounting for Certain Hybrid Financial Instruments − an amendment to FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 simplifies the accounting for certain hybrid financial instruments containing embedded derivatives. SFAS 155 allows fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). In addition, it amends

(a) SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event occurring after the beginning of an entity' s first fiscal year that begins after September 15, 2006. Nortel will adopt the provisions of SFAS 155 on January 1, 2007. The implementation of SFAS 155 is not expected to have a material impact on Nortel' s results of operations and financial condition.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets − an amendment of FASB Statement

(b) No. 140" ("SFAS 156"). SFAS 156 simplifies the accounting for assets and liabilities arising from loan servicing contracts. SFAS 156 requires that servicing rights be

valued initially at fair value, and subsequently either (i) accounted for at fair value or (ii) amortized over the period of estimated net servicing income/loss, with an assessment for impairment or increased obligation each reporting period. SFAS 156 is effective for fiscal years beginning after September 15, 2006. Nortel will adopt the provisions of SFAS 156 on January 1, 2007. The implementation of SFAS 156 is not expected to have a material impact on Nortel' s results of operations and financial condition.

(c) In April 2006, the FASB issued FASB Staff Position ("FSP"), FASB Interpretation No. ("FIN") 46(R)-6, "Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R)" ("FSP FIN 46(R)-6"). FSP FIN 46(R)-6 provides accounting guidance on how to distinguish between arrangements that create variability (i.e., the risks and rewards) within an entity and arrangements that are subject to that variability (i.e., variable interests). FSP FIN 46(R)-6 is responding to a need for accounting guidance on arrangements that can be either assets or liabilities (e.g., derivative financial instruments). FSP FIN 46(R)-6 is effective for the first fiscal period that begins after June 15, 2006. Nortel will adopt the provisions of FSP FIN 46(R)-6 effective July 1, 2006. Nortel is currently in the process of assessing the impact of FSP FIN 46(R)-6 on its results of operations and financial condition.

(d) In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise' s financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS 109"). The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides accounting guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Nortel will adopt the provisions of FIN 48 on January 1, 2007. Nortel is currently in the process of assessing the impact of FIN 48 on its results of operations and financial condition.

2. Accounting changes

(a) The Meaning of Other-than-Temporary Impairment and its Application to Certain Investments

As of January 1, 2006, Nortel adopted the United States Emerging Issues Task Force ("EITF") Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"), re-titled FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP FAS 115-1 and FAS 124-1"). The adoption of FSP FAS 115-1 and FAS 124-1 did not have a material impact on Nortel' s results of operations and financial condition.

(b) Inventory Costs

As of January 1, 2006, Nortel adopted SFAS No. 151, "Inventory Costs" ("SFAS 151"). The adoption of SFAS 151 did not have a material impact on Nortel' s results of operations and financial condition.

(c) Share-Based Payment

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the consolidated financial statements based on their fair values. SFAS 123R also modifies certain measurement and expense recognition provisions of SFAS 123 that will impact Nortel, including the requirement to estimate employee forfeitures each period when recognizing compensation expense and requiring that the initial and subsequent measurement of the cost of liability-based awards each period be based on the fair value (instead of the intrinsic value) of the award. This statement is effective for Nortel as of January 1, 2006. Nortel previously elected to expense employee stock-based compensation using the fair value method prospectively for all awards granted or modified on or after January 1, 2003 in accordance with SFAS No. 148, "Accounting for Stock Based Compensation − Transition and Disclosure" ("SFAS 148"). SEC Staff Accounting Bulletin ("SAB") 107, "Share-Based Payment" ("SAB 107"), was issued by the SEC in March 2005 and provides supplemental SFAS 123R application guidance based on the views of the SEC. As a result of the adoption of SFAS 123R in the first quarter of 2006, Nortel recorded a gain of $9 as a cumulative effect of an accounting change. There were no other material impacts on Nortel' s results of

operations and financial condition as a result of the adoption of SFAS 123R. For additional disclosure related to SFAS 123R, see note 16.

(d) Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which replaces Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements − An Amendment of APB Opinion No. 28". SFAS 154 provides guidance on the accounting for and reporting of changes in accounting principles and error corrections. SFAS 154 requires retrospective application to prior period financial statements of voluntary changes in accounting principles and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. SFAS 154 also requires certain disclosures for restatements due to correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and was adopted by Nortel as of January 1, 2006. The impact that the adoption of SFAS 154 will have on Nortel' s consolidated results of operations and financial condition will depend on the nature of future accounting changes adopted by Nortel and the nature of transitional guidance provided in future accounting pronouncements.

(e) Accounting for Purchases and Sales of Inventory with the same Counterparty

As of April 1, 2006, Nortel adopted EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty" ("EITF 04-13"). The adoption of EITF 04-13 did not have a material impact on Nortel' s results of operations and financial condition.

3. Restatement of previously issued financial statements

Nortel has effected successive restatements of prior period financial results. Following the restatement (effected in December 2003) of Nortel' s consolidated financial statements for the years ended December 31, 2002, 2001 and 2000 and for the quarters ended March 31, 2003 and June 30, 2003 (the "First Restatement"), the Audit Committees of Nortel' s and Nortel Networks Limited' s ("NNL") Board of Directors (the "Audit Committee") initiated an independent review of the facts and circumstances leading to the First Restatement (the "Independent Review") and engaged Wilmer Cutler Pickering Hale & Dorr LLP to advise it in connection with the Independent Review. This review and related work led to a variety of actions, and ultimately to the restatement of Nortel' s consolidated financial statements for the years ended December 31, 2002 and 2001 and the quarters ended March 31, 2003 and 2002, June 30, 2003 and 2002 and September 30, 2003 and 2002 (the "Second Restatement").

In January 2005, the Audit Committee reported the findings of the Independent Review, together with its recommendations for governing principles for remedial measures, the summary of which is included in the "Controls and Procedures" section of the Annual Report on Form 10-K for the year ended December 31, 2003 (the "2003 Annual Report"). Each of Nortel' s and NNL' s Board of Directors adopted these recommendations in their entirety and directed management to implement those principles, through a series of remedial measures, across the company, to prevent any repetition of past misconduct and re-establish a finance organization with values of transparency, integrity and sound financial reporting as its cornerstone.

As part of these remedial measures and to compensate for the unremedied material weaknesses in Nortel' s internal control over financial reporting, Nortel undertook intensive efforts in 2005 to enhance its controls and procedures relating to the recognition of revenue. These efforts included, among other measures, extensive documentation and review of customer contracts for revenue recognized in 2005 and earlier periods. As a result of the contract review, it became apparent that certain of the contracts had not been accounted for properly under U.S. GAAP. Most of these errors related to contractual arrangements involving multiple deliverables, for which revenue recognized in prior periods should have been deferred to later periods, under American Institute of Certified Public Accountants Statement of Position ("SOP") 97-2, "Software Revenue Recognition" ("SOP 97-2"), and SAB No. 104 "Revenue Recognition" ("SAB 104").

In addition, based on Nortel' s review of its revenue recognition policies and discussions with its independent registered chartered accountants as part of the 2005 audit, Nortel determined that in its previous application of these policies, it misinterpreted certain of these policies principally related to complex contractual arrangements with customers where multiple deliverables were accounted for using the percentage-of-completion method of accounting under SOP 81-1,

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

"Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1"), as described in more detail below:

Certain complex arrangements with multiple deliverables were previously fully accounted for under the percentage of completion method of SOP 81-1, but elements outside of the scope of SOP 81-1 should have been examined for separation under the guidance in EITF Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"); and

Certain complex arrangements accounted for under the percentage-of-completion method did not meet the criteria for this treatment in SOP 81-1 and should instead have been accounted for using completed contract accounting under SOP 81-1.

In correcting for both application errors, the timing of revenue recognition was frequently determined to be incorrect, with revenue having generally been recognized prematurely when it should have been deferred and recognized in later periods. Management' s determination that these errors required correction led to the Audit Committee' s decision on March 9, 2006 to effect a further restatement of Nortel' s consolidated financial statements (the "Third Restatement") which was effected with the filing of Nortel' s and NNL' s 2005 Annual Reports with the SEC.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

The following tables present the impact of the Third Restatement adjustments on Nortel' s previously reported consolidated statements of operations and a summary of the adjustments from the Third Restatement for the three and six months ended June 30, 2005. Restated amounts presented herein are consistent with those disclosed in Nortel' s 2005 Annual Report.

Condensed Consolidated Statement of Operations (unaudited) for the three months ended June 30, 2005

	As previously reported	Adjustments	As restated
Revenues	$2,855	$(236)	$2,619
Cost of revenues	1,620	(135)	1,485
Gross profit	1,235	(101)	1,134
Selling, general and administrative expense	579	9	588
Research and development expense	479	9	488
Amortization of intangibles	2	−	2
Special charges	90	2	92
(Gain) loss on sale of businesses and assets	36	(25)	11
Operating earnings (loss)	49	(96)	(47)
Other income − net	58	16	74
Interest expense			
Long-term debt	(51)	−	(51)
Other	(1)	−	(1)
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies	55	(80)	(25)
Income tax benefit (expense)	7	2	9
	62	(78)	(16)
Minority interests − net of tax	(17)	−	(17)
Equity in net earnings (loss) of associated companies − net of tax	1	−	1
Net earnings (loss) from continuing operations	46	(78)	(32)
Net loss from discontinued operations − net of tax	(1)	−	(1)
Net earnings (loss)	$45	$(78)	$(33)
Basic and diluted earnings (loss) per common share			
− from continuing operations	$0.01	$(0.02)	$(0.01)
− from discontinued operations	(0.00)	(0.00)	(0.00)
Basic and diluted earnings (loss) per common share	$0.01	$(0.02)	$(0.01)

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Condensed Consolidated Statement of Operations (unaudited) for the six months ended June 30, 2005

	As previously reported	Adjustments	As restated
Revenues	$5,391	$(383)	$5,008
Cost of revenues	3,099	(237)	2,862
Gross profit	2,292	(146)	2,146
Selling, general and administrative expense	1,153	13	1,166
Research and development expense	953	9	962
Amortization of intangibles	4	−	4
Special charges	111	(5)	106
(Gain) loss on sale of businesses and assets	37	(4)	33
Operating earnings (loss)	34	(159)	(125)
Other income − net	104	24	128
Interest expense			
Long-term debt	(101)	−	(101)
Other	(4)	−	(4)
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies	33	(135)	(102)
Income tax benefit (expense)	(9)	2	(7)
	24	(133)	(109)
Minority interests − net of tax	(31)	−	(31)
Equity in net earnings (loss) of associated companies − net of tax	2	−	2
Net earnings (loss) from continuing operations	(5)	(133)	(138)
Net earnings from discontinued operations − net of tax	1	−	1
Net earnings (loss)	$(4)	$(133)	$(137)
Basic and diluted earnings (loss) per common share			
− from continuing operations	$(0.00)	$(0.03)	$(0.03)
− from discontinued operations	0.00	0.00	0.00
Basic and diluted earnings (loss) per common share	$(0.00)	$(0.03)	$(0.03)

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Adjustments

The following table summarizes the revenue adjustments and other adjustments to net earnings (loss).

	Three months ended June 30, 2005	Six months ended June 30, 2005
Revenues − as previously reported	$2,855	$5,391
Adjustments:		
Application of SOP 81-1	(23)	59
Interaction between multiple revenue recognition accounting standards	(155)	(338)
Application of SAB 104 and SOP 97-2	(45)	(98)
Other revenue recognition adjustments	(13)	(6)
Revenues − as restated	$2,619	$5,008
Net earnings (loss) − as previously reported		
Adjustments:	$45	$(4)
Application of SOP 81-1	(12)	(3)
Interaction between multiple revenue recognition accounting standards	(12)	(38)
Application of SAB 104 and SOP 97-2	(25)	(51)
Other revenue recognition adjustments	(50)	(53)
(Gain) loss on sale of businesses	25	4
Foreign exchange(i)	11	13
Other	(15)	(5)
Net earnings (loss) − as restated	$(33)	$(137)

(i) Includes the foreign exchange gains and losses resulting from the Third Restatement adjustments, and the correction of certain foreign exchange errors.

Revenue Recognition Adjustments:

Application of SOP 81-1

Nortel determined that, in certain arrangements, it had misinterpreted the guidance in SOP 81-1 relating to the application of percentage-of-completion accounting. Under the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date relative to the total expected costs of the contract. In certain circumstances where a reasonable estimate of costs cannot be made, but it is assured that no loss will be incurred, revenue is recognized to the extent of direct costs incurred ("zero margin accounting"). If a reasonable estimate of costs cannot be made and Nortel is not assured that no loss will be incurred, revenue should be recognized using completed contract accounting.

For certain arrangements accounted for under the percentage-of-completion method which included rights to future software upgrades, Nortel has determined that it did not have a sufficient basis to estimate the total costs of the arrangements, due to the inability to estimate the cost of providing these future software upgrades. In addition, in one arrangement, Nortel had previously applied zero margin accounting on the basis that it believed that no loss would be incurred. Nortel has determined that assurance that no loss would be incurred exists only in very limited circumstances, such as in cost recovery arrangements. Accordingly, Nortel has determined that percentage-of-completion accounting should not have been used to account for these specific arrangements and the completed contract method should have been applied under SOP 81-1. Under the completed contract method, revenues and certain costs are deferred until completion of the arrangement, which results in a delay in the timing of revenue recognition as compared to arrangements accounted for under percentage-of-completion accounting.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Interaction between multiple revenue recognition accounting standards

Nortel has determined there were accounting errors related to the application of SOP 81-1, SOP 97-2 and related interpretive guidance under EITF 00-21.

Some of Nortel' s customer arrangements have multiple deliverable elements for which different accounting standards may govern the appropriate accounting treatment. For those arrangements that contained more-than-incidental software and involved significant production, modification or customization of software or software-related elements ("customized elements"), Nortel had previously applied the percentage-of-completion method of accounting under SOP 81-1 to all the elements under the arrangement, in accordance with its interpretation of SOP 97-2. This included certain future software, software-related or non-software related deliverables.

Nortel has determined that it should have applied the separation criteria set forth in EITF 00-21 and SOP 97-2 to non-software and software/ software-related elements, respectively, to determine whether the various elements under these arrangements should be treated as separate units of accounting. Generally, the applicable separation criteria in EITF 00-21 and SOP 97-2 requires sufficient objective and reliable evidence of fair value for each element. If an undelivered non-SOP 81-1 element cannot be separated from an SOP 81-1 element, depending on the nature of the elements and the timing of their delivery, the combined unit of accounting may be required to be accounted for under SOP 97-2 rather than under SOP 81-1. SOP 97-2 provides that the entire revenue associated with the combined elements should typically be deferred until the earlier of the point at which (i) the undelivered element(s) meet the criteria for separation or (ii) all elements within the combined unit of accounting have been delivered. Once there is only one remaining element to be delivered within the unit of accounting, the deferred revenue is recognized based on the revenue recognition guidance applicable to the last delivered element.

For certain of Nortel' s multiple element arrangements involving customized elements where elements such as post-contract support ("PCS"), specified upgrade rights and/or non-essential hardware or software products remained undelivered, Nortel frequently determined that the undelivered element could not be treated as a separate unit of accounting because fair value could not be established for all undelivered non-customized elements. Accordingly, Nortel should not have accounted for the revenue using percentage-of-completion accounting. Instead, the revenue should have been deferred in accordance with SOP 97-2 until such time as the fair value of the undelivered element could be established or all remaining elements have been delivered. Once there is only one remaining element to be delivered within the unit of accounting, the deferred revenue is recognized based on the revenue recognition guidance applicable to that last element.

Application of SAB 104 and SOP 97-2

Primarily as a result of Nortel' s contract review, Nortel determined that in respect of certain contracts providing for multiple deliverables, revenues had previously been recognized for which the revenue recognition criteria under SOP 97-2 or SAB 104, as applicable, had not been met. These errors related primarily to situations in which the fair value of an undelivered element under the arrangement could not be established.

In certain arrangements, Nortel had treated commitments to make available a specified quantity of upgrades during the contract period as PCS. Under SOP 97-2, where fair value cannot be established for PCS, revenue is recognized for the entire arrangement ratably over the PCS term. Nortel has determined that commitments to make available a specified quantity of upgrades do not qualify as PCS and should be accounted for as a separate element of the arrangement from the PCS. Fair value could not be established for these commitments to make available a specified quantity of upgrades and, as a result, the revenue related to the entire arrangement should have been deferred until the earlier of when (i) fair value of the undelivered element could be established or (ii) the undelivered element is delivered. Adjustments were made to defer the revenue and related costs until the upgrades were delivered.

In certain multiple element arrangements, Nortel had recognized revenue upon delivery of products under the arrangement although other elements under the arrangement, such as future contractual or implicit PCS, had not been delivered. If sufficient evidence of fair value cannot be established for an undelivered element, revenue related to the delivered products should be deferred until the earlier of when vendor specific objective evidence ("VSOE") for the undelivered element can be established or all the remaining elements have been delivered. Once there is only one remaining element, the deferred revenue is recognized based on the revenue recognition guidance applicable to that last undelivered element. For instance, where PCS is the last undelivered element within the unit of accounting, deferred

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

revenue is recognized ratably over the PCS term. As Nortel identified a number of contracts where sufficient evidence of fair value could not be established for the undelivered elements, adjustments were made to defer the revenue and related costs from the periods in which they were originally recorded and until such time as the appropriate recognition criteria were met.

Other revenue recognition adjustments

In addition, errors related to application of profit center definitions were identified and corrected. Nortel made other revenue corrections related to the treatment of non-cash incentives, and certain errors related to the classification of revenue. Other revenue recognition adjustments also reflect the impact on cost of revenues of corrections to standard costing on deferred costs (related to deferred revenue) included in inventory, and other adjustments to inventory to correct standard costing.

Other adjustments

Other miscellaneous adjustments were identified and recorded in the Third Restatement, the more significant of which are summarized below.

Nortel had previously recorded a charge of $27 to (gain) loss on sale of businesses and assets in the second quarter of 2005 to correct a cumulative error related to capitalized legal and professional fees, real estate impairment costs and special termination benefits relating to its transaction with Flextronics International Ltd. ("Flextronics"). Nortel determined that these costs should have been expensed as incurred starting in 2004, and through the first quarter of 2005. As part of the Third Restatement, these adjustments were recorded in the appropriate prior periods resulting in a decrease to the loss on sale of businesses and assets in the second quarter of 2005 of $27 and a corresponding increase of $20 and $7 in the first quarter of 2005 and fourth quarter of 2004, respectively.

In addition, during the first three quarters of 2005, Nortel recorded gains related to inventory transferred to Flextronics as a reduction of cost of revenues. These gains should have been included in the calculation of the (gain) loss on sale of businesses and assets and deferred accordingly. The correction of this error resulted in an increase in cost of revenues of $21 for the second quarter of 2005 and $29 for the six months ended June 30, 2005.

Adjustments resulting from the Third Restatement were not material to the consolidated statement of cash flows for the three and six months ended June 30, 2005.

4. Consolidated financial statement details

The following consolidated financial statement details are presented for each of the three and six months ended June 30, 2006 and 2005 for the consolidated statements of operations, as of June 30, 2006 and December 31, 2005 for the consolidated balance sheets and for each of the six months ended June 30, 2006 and 2005 for the consolidated statements of cash flows.

Consolidated statements of operations

Other income − net:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Interest income	$ 19	$ 15	$35	$29
Gain (loss) on sale or write down of investments	2	21	1	16
Currency exchange gains (losses)	16	19	26	47
Other − net	14	19	58	36
Other income − net	$ 51	$ 74	$120	$128

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Hedge ineffectiveness and the discontinuance of cash flow hedges and fair value hedges that were accounted for in accordance with SFAS 133 had no material impact on net earnings (loss) for the three and six months ended June 30, 2006 and 2005 and were reported within other income − net in the consolidated statements of operations.

Consolidated balance sheets

Accounts receivable − net:

	June 30, 2006	December 31, 2005
Trade receivables	$2,076	$2,266
Notes receivable	208	122
Contracts in process	602	611
	2,886	2,999
Less: provision for doubtful accounts	(101)	(137)
Accounts receivable − net	$2,785	$2,862

Inventories − net:

	June 30, 2006	December 31, 2005
Raw materials	$744	$777
Work in process	44	50
Finished goods	894	819
Deferred costs	2,153	2,014
	3,835	3,660
Less: provision for inventory	(1,070)	(1,039)
Inventories − net	2,765	2,621
Less: long-term deferred costs(a)	(730)	(817)
Current inventories − net	$2,035	$1,804

(a) Long-term portion of deferred costs is included in other assets.

Other current assets:

	June 30, 2006	December 31, 2005
Prepaid expenses	$234	$198
Income taxes recoverable	81	68
Other	518	530
Other current assets	$833	$796

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Plant and equipment − net:

	June 30, 2006	December 31, 2005
Cost:		
Land	$39	$45
Buildings	1,213	1,265
Machinery and equipment	2,321	2,190
Capital lease assets	213	213
Sale lease-back assets	95	80
	3,881	3,793
Less accumulated depreciation:		
Buildings	(451)	(455)
Machinery and equipment	(1,751)	(1,679)
Capital lease assets	(86)	(78)
Sale lease-back assets	(19)	(17)
	(2,307)	(2,229)
Plant and equipment − net(a)	$1,574	$1,564

(a) Included assets held for sale with a carrying value of $77 and $136 as of June 30, 2006 and December 31, 2005, respectively, related to owned facilities that were being actively marketed. These assets were written down in previous periods to their estimated fair values less costs to sell. The write downs were included in special charges. Nortel expects to dispose of all of these facilities during 2006.

Goodwill:

The following table outlines goodwill by reportable segment:

	Enterprise Solutions and Packet Networks	Mobility and Converged Core Networks	Other	Total
Balance − as of December 31, 2005	$2,228	$ 86	$278	$2,592
Change:				
Additions(a)	43	−	−	43
Disposal(c)	(44)	(4)	−	(48)
Foreign exchange	7	4	−	11
Other	(2)	(2)	(6) (b)	(10)
Balance − as of June 30, 2006	$2,232	$ 84	$272	$2,588

(a) The additions of $43 relate to the goodwill acquired as a result of the Tasman Networks, Inc. (“Tasman Networks”) acquisition in the first quarter of 2006. See note 9 for additional information.

(b) Relates to a $6 reduction of goodwill recorded as part of the acquisition of Nortel Government Solutions Incorporated (formerly PEC Solutions Inc.) (“NGS”), as a result of a tax adjustment.

(c) Includes a disposal of $42 related to the transfer of Nortel’ s Calgary manufacturing plant assets to Flextronics in the second quarter of 2006. See note 9 for additional information.

Due to the change in operating segments and reporting segments in the first quarter of 2006 as described in note 5, a triggering event occurred requiring a goodwill impairment test in the first quarter of 2006 in accordance with SFAS No. 142, “Goodwill and Other Intangible Assets”. Nortel performed this test and concluded that there was no impairment.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Intangible assets − net:

	June 30, 2006	December 31, 2005
Other intangible assets(a)	$166	$135
Pension intangible assets	39	37
Intangible assets − net	$205	$172

(a) Other intangible assets are being amortized over a weighted average period of approximately nine years ending in 2014, based on their expected pattern of benefit to future periods using estimates of undiscounted cash flows. The amortization expense is partially denominated in a foreign currency and may fluctuate due to changes in foreign exchange rates.

Other accrued liabilities:

	June 30, 2006	December 31, 2005
Outsourcing and selling, general and administrative related provisions	$265	$256
Customer deposits	77	38
Product related provisions	56	42
Warranty provisions (note 11)	211	208
Deferred revenue	1,723	1,289
Miscellaneous taxes	60	66
Income taxes payable	52	83
Interest payable	39	65
Advance billings in excess of revenues recognized to date on contracts(a)	1,012	1,195
Shareholder litigation settlement provision (note 18)	804	804
Other	218	154
Other accrued liabilities	$4,517	$4,200

(a) Includes amounts which will be recognized beyond one year due to the duration of certain contracts.

Other liabilities:

	June 30, 2006	December 31, 2005
Pension, post-employment and post-retirement benefit liabilities	$2,465	$2,459
Restructuring liabilities (note 6)	178	203
Deferred revenue	948	1,073
Shareholder litigation settlement provision (note 18)	1,408	1,899
Other long-term provisions	239	301
Other liabilities	$5,238	$5,935

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Consolidated statements of cash flows

Change in operating assets and liabilities:

	Six months ended June 30,	
	2006	2005
Accounts receivable − net	$238	$3
Inventories − net	(287)	(162)
Income taxes	(53)	(33)
Restructuring liabilities	(9)	(95)
Accounts payable, payroll and contractual liabilities	(320)	(186)
Other operating assets and liabilities	(233)	129
Change in operating assets and liabilities	$(664)	$(344)

Interest and taxes paid (recovered):

	Six months ended June 30,	
	2006	2005
Cash interest paid	$162	$ 98
Cash taxes paid (recovered) − net	$52	$ 29

5. Segment information

General description

During 2005, Nortel' s operations were organized into four reportable segments: Carrier Packet Networks, Code Division Multiple Access ("CDMA") Networks, Global System for Mobile communications ("GSM") and Universal Mobile Telecommunications Systems ("UMTS") Networks and Enterprise Networks. On September 30, 2005, Nortel announced a new organizational structure, effective January 1, 2006, that included, among other things, combining the businesses represented by its four reportable segments at that time into two product groups: (i) Enterprise Solutions and Packet Networks, which combines optical networking solutions (included in Nortel' s Carrier Packet Networks segment in 2005), data networking and security solutions, and portions of circuit and packet voice solutions (included in both Nortel' s Carrier Packet Networks segment and Enterprise Networks segment in 2005) into a unified product group; and (ii) Mobility and Converged Core Networks, which combines Nortel' s CDMA solutions and GSM and UMTS solutions (each a separate segment in 2005) and other circuit and packet voice solutions (included in Nortel' s Carrier Packet Networks segment in 2005).

These organizational changes resulted in a change to Nortel' s reportable segments. Commencing in the first quarter of 2006, Mobility and Converged Core Networks and Enterprise Solutions and Packets Networks form Nortel' s reportable segments and are described below:

Mobility and Converged Core Networks provides mobility networking solutions using (i) CDMA solutions and GSM and UMTS solutions and (ii) carrier circuit and packet voice solutions. Mobility networking refers to communications networks that enable end-users to be mobile while they send and receive voice and data communications using wireless devices, such as cellular telephones, personal digital assistants and other computing and communications devices. These networks use specialized network access equipment and specialized core networking equipment that enable an end-user to be connected and identified when not in a fixed location. In addition, Nortel' s carrier circuit and packet voice solutions provide a complete range of voice solutions to its service provider customers, including local, toll, long-distance and international gateway capabilities using either circuit or packet-based switching technologies. These service provider customers include local and long distance telephone companies, wireless service providers, cable operators and other communication service providers.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Enterprise Solutions and Packet Networks provides (i) enterprise circuit and packet voice solutions, (ii) data networking and security solutions and (iii) optical networking solutions. Nortel' s solutions for enterprises are used to build new networks and transform their existing communications network into a more cost effective, packet-based network supporting data, voice and multimedia communications. Nortel' s optical networking and carrier data networking and security solutions provide voice, data and multimedia communication solutions to its service provider customers that operate wireline networks.

"Other" represents miscellaneous business activities and corporate functions and includes the results from NGS. None of these activities meet the quantitative criteria to be disclosed separately as reportable segments. Costs associated with shared services and other corporate costs are allocated to the segments based on usage determined generally by headcount. Costs not allocated to the segments are primarily related to Nortel' s corporate compliance, interest attributable to its long-term debt and other non-operational activities and are included in "Other".

Nortel' s president and chief executive officer (the "CEO") has been identified as the Chief Operating Decision Maker in assessing the performance of the segments and the allocation of resources to the segments. The primary financial measure used by the CEO in assessing performance and allocating resources to the segments is management earnings (loss) before income taxes ("Management EBT"), a measure that includes the cost of revenues, selling, general and administrative ("SG&A") expense, research and development ("R&D") expense, interest expense, other income (expense) − net, minority interests − net of tax and equity in net earnings (loss) of associated companies − net of tax. Interest attributable to long-term debt is not allocated to a reportable segment and is included in "Other". The CEO does not review asset information on a segmented basis in order to assess performance and allocate resources. The accounting policies of the reportable segments are the same as those applied to the unaudited condensed consolidated financial statements. Prior period segment results have been restated to conform to the current period presentation.

Segments

The following tables set forth information by segment for the three and six months ended:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenues				
Mobility and Converged Core Networks	$1,591	$1,484	$3,017	$2,970
Enterprise Solutions and Packet Networks	1,068	1,074	1,939	1,952
Total reportable segments	2,659	2,558	4,956	4,922
Other	85	61	170	86
Total revenues	$2,744	$2,619	$5,126	$5,008
Management EBT				
Mobility and Converged Core Networks	$168	$177	$286	$367
Enterprise Solutions and Packet Networks	12	60	(37)	27
Total reportable segments	180	237	249	394
Other	(220)	(173)	(448)	(382)
Total Management EBT	(40)	64	(199)	12
Amortization of intangibles	(6)	(2)	(11)	(4)
In-process research and development expense	(16)	−	(16)	−
Special charges	(45)	(92)	(50)	(106)
Gain (loss) on sale of businesses and assets	(10)	(11)	25	(33)
Shareholder litigation settlement recovery	510	−	491	−
Income tax benefit (expense)	(27)	9	(50)	(7)
Net earnings (loss) from continuing operations	$366	$(32)	$190	$(138)

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

For the three and six months ended June 30, 2006 and 2005, no customer generated revenues greater than 10 percent of consolidated revenues.

6. Special charges

During the second quarter of 2006, in an effort to increase competitiveness by improving operating margins and overall business performance, Nortel announced a restructuring plan that includes a work plan involving workforce reductions of approximately 1,900 employees (the "2006 Restructuring Plan"). The workforce reductions are expected to include approximately 350 middle management positions throughout the company, with the balance of workforce reductions to primarily occur in the U.S. and Canada and span both of Nortel' s segments. Nortel estimates total charges to earnings and cash associated with the 2006 Restructuring Plan will be approximately $100, to be expensed over fiscal 2006 and 2007. The 2006 Restructuring Plan focuses exclusively on workforce reductions, and as such, no additional special charges are expected to be recorded with respect to the other cost containment actions. Approximately $43 of the 2006 Restructuring Plan charges were incurred in the first half of 2006, with the remainder expected to be incurred during the second half of 2006 and fiscal 2007.

In 2004 and 2005, Nortel' s focus was on managing each of its businesses based on financial performance, the market and customer priorities. In the third quarter of 2004, Nortel announced a strategic plan that includes a work plan involving focused workforce reductions, including a voluntary retirement program, of approximately 3,250 employees, real estate optimization and other cost containment actions such as reductions in information services costs, outsourced services and other discretionary spending across all segments (the "2004 Restructuring Plan"). Nortel estimates total charges to earnings associated with the 2004 Restructuring Plan in the aggregate of approximately $410 comprised of approximately $240 with respect to the workforce reductions and approximately $170 with respect to the real estate actions. No additional special charges are expected to be recorded with respect to the other cost containment actions. Approximately $177 of the aggregate charges were incurred in 2005 and $7 in the first half of 2006, with the remainder expected to be substantially incurred during the second half of 2006.

During 2001, Nortel implemented a work plan to streamline operations and activities around core markets and leadership strategies in light of the significant downturn in both the telecommunications industry and the economic environment, and capital market trends impacting operations and expected future growth rates (the "2001 Restructuring Plan").

Under the 2001 Restructuring Plan, as described below, activities were initiated in 2003 to exit certain leased facilities and leases for assets no longer used across all segments. The liabilities associated with these activities were measured at fair value and recognized under SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146").

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

During the three and six months ended June 30, 2006, Nortel continued to implement these restructuring work plans. Special charges recorded from January 1, 2006 to June 30, 2006 were as follows:

					Special Charges	
	Workforce reduction	Contract settlement and lease costs	Plant and equipment write downs	Total	Three months ended June 30, 2006	Six months ended June 30, 2006
2006 Restructuring Plan						
Provision balance as of December 31, 2005(a)	$−	$−	$ −	$−		
Other special charges	43	−	−	43	$ 43	$ 43
Revisions to prior accruals	−	−	−	−		
Cash drawdowns	(3)	−	−	(3)		
Non-cash drawdowns	−	−	−	−		
Foreign exchange and other adjustments	−	−	−	−		
Provision balance as of June 30, 2006	$40	$−	$ −	$40		
2004 Restructuring Plan						
Provision balance as of December 31, 2005(a)	$21	$61	$ −	$82		
Other special charges	−	−	−	−		
Revisions to prior accruals	3	4	−	7	1	7
Cash drawdowns	(17)	(11)	−	(28)		
Non-cash drawdowns	−	−	−	−		
Foreign exchange and other adjustments	−	2	−	2		
Provision balance as of June 30, 2006	$7	$56	$ −	$63		
2001 Restructuring Plan						
Provision balance as of December 31, 2005(a)	$3	$213	$ −	$216		
Other special charges	−	−	−	−		
Revisions to prior accruals	1	(1)	−	−	1	−
Cash drawdowns	(1)	(32)	−	(33)		
Non-cash drawdowns	−	−	−	−		
Foreign exchange and other adjustments	(1)	4	−	3		
Provision balance as of June 30, 2006	$2	$184	$ −	$186		
Total provision balance as of June 30, 2006(a)	$49	$240	$ −	$289		
Total special charges					$ 45	$ 50

(a) As of June 30, 2006 and December 31, 2005, the short-term provision balance was $111 and $95, respectively, and the long-term provision balance was $178 and $203, respectively.

As workforce reductions related to the 2004 and 2001 Restructuring Plans are substantially complete, there were no employee notifications during the three and six months ended June 30, 2006.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

2006 Restructuring Plan

Three and six months ended June 30, 2006

During the three and six months ended June 30, 2006, Nortel recorded special charges of $43 and $43, respectively, related to severance and benefit costs associated with a workforce reduction of approximately 700 employees, of which 190 had been notified of termination during the three months ended June 30, 2006. The workforce reduction was primarily in the U.S. and Canada and extended across both segments. The remaining provision is expected to be substantially drawn down by the end of 2007.

The workforce reduction provision balance was drawn down by cash payments of $3 and $3, respectively, during the three and six months ended June 30, 2006.

2006 Restructuring Plan − by Segment

The following table outlines special charges incurred by segment related to the 2006 Restructuring Plan for each of the three and six months ended June 30:

	Workforce reduction	Total
Mobility and Converged Core Networks		
For the three months ended June 30, 2006	$ 27	$ 27
Enterprise Solutions and Packet Networks		
For the three months ended June 30, 2006	16	16
Other	–	–
Total special charges for the six months ended June 30, 2006	$ 43	$ 43

2004 Restructuring Plan

Three and six months ended June 30, 2006

During the three and six months ended June 30, 2006, Nortel recorded revisions of $1 and $7, respectively, related to prior accruals.

The workforce reduction provision balance was drawn down by cash payments of $4 and $17 during the three and six months ended June 30, 2006, respectively. The workforce reduction was primarily in the U.S., Canada and Europe, Middle East and Africa ("EMEA") and extended across both segments. The remaining provision is expected to be substantially drawn down by the end of 2006.

Contract settlement and lease costs included revisions to prior accruals of nil and $4 for the three and six months ended June 30, 2006, respectively, and consisted of negotiated settlements to cancel or renegotiate contracts and net lease charges related to leased facilities (comprised of office space) and leased furniture that were identified as no longer required primarily in the U.S. and EMEA and in the Mobility and Converged Core Networks segment. These lease costs, net of anticipated sublease income, included costs relating to non-cancelable lease terms from the date leased facilities ceased to be used and termination penalties. During the three and six months ended June 30, 2006, the provision balance for contract settlement and lease costs was drawn down by cash payments of $6 and $11, respectively. The remaining provision, net of approximately $33 in estimated sublease income, is expected to be substantially drawn down by the end of 2018.

Three and six months ended June 30, 2005

During the three and six months ended June 30, 2005, Nortel recorded special charges of $89 and $114, respectively, which included revisions of $(1) and $7, respectively, related to prior accruals.

Workforce reduction charges of $38 and $54, net of revisions to prior accruals of $7 and $7, respectively, were related to severance and benefit costs associated with approximately 240 and 460 employees notified of termination during the three and six months ended June 30, 2005, respectively. The workforce reduction provision balance was drawn down by

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

cash payments of $33 and $119 during the three and six months ended June 30, 2005, respectively. The workforce reduction was primarily in the U.S., Canada and EMEA and extended across both segments.

Contract settlement and lease costs of $46 and $54, for the three and six months ended June 30, 2005, respectively, consisted of negotiated settlements to cancel or renegotiate contracts and net lease charges related to leased facilities (comprised of office space) and leased furniture that were identified as no longer required primarily in the U.S. and EMEA. These lease costs, net of anticipated sublease income, included costs relating to non-cancelable lease terms from the date leased facilities ceased to be used and termination penalties.

2004 Restructuring Plan − by Segment

The following table outlines special charges incurred by segment related to the 2004 Restructuring Plan for each of the three and six months ended June 30, 2006 and 2005:

	Workforce reduction	Contract settlement and lease costs	Plant and equipment write downs	Total
Mobility and Converged Core Networks				
For the three months ended March 31, 2006	$ 1	$ 2	$ −	$3
For the three months ended June 30, 2006	1	−	−	1
Enterprise Solutions and Packet Networks				
For the three months ended March 31, 2006	1	2	−	3
For the three months ended June 30, 2006	−	−	−	−
Other	−	−	−	−
Total special charges for the six months ended June 30, 2006	$ 3	$ 4	$ −	$7
Mobility and Converged Core Networks				
For the three months ended March 31, 2005	$ 11	$ 1	$ 1	$13
For the three months ended June 30, 2005	26	30	4	60
Enterprise Solutions and Packet Networks				
For the three months ended March 31, 2005	5	7	−	12
For the three months ended June 30, 2005	12	16	1	29
Other	−	−	−	−
Total special charges for the six months ended June 30, 2005	$ 54	$ 54	$ 6	$114

2001 Restructuring Plan

Three and six months ended June 30, 2006

During the three and six months ended June 30, 2006, Nortel recorded revisions of $1 and nil, respectively, related to prior accruals.

The workforce reduction provision balance was drawn down by cash payments of nil and $1 during the three and six months ended June 30, 2006, respectively. The remaining provision is expected to be substantially drawn down by the end of 2006.

During the three and six months ended June 30, 2006, Nortel recorded revisions of $1 and $(1), respectively, for contract settlements and lease costs, respectively. During the three and six months ended June 30, 2006, the provision balance for contract settlement and lease costs was drawn down by cash payments of $16 and $32, respectively. The remaining provision, net of approximately $167 in estimated sublease income, is expected to be substantially drawn down by the end of 2013.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Three and six months ended June 30, 2005

During the three and six months ended June 30, 2005, Nortel recorded revisions of $3 and $(8), respectively, related to prior accruals.

The workforce reduction provision balance was drawn down by cash payments of $2 and $4 during the three and six months ended June 30, 2005, respectively.

During the three and six months ended June 30, 2005, Nortel recorded revisions of $1 and $1, respectively, for contract settlements and lease costs. During the three and six months ended June 30, 2005, the provision balance for contract settlement and lease costs was drawn down by cash payments of $25 and $65, respectively.

The table below summarizes the total costs estimated to be incurred as a result of the exit activities initiated in 2003, which have met the criteria described in SFAS 146, the balance of these accrued expenses as of June 30, 2006 and the movement in the accrual for the six months ended June 30, 2006. These costs are included in the provision balance above for the 2001 Restructuring Plan as of June 30, 2006.

	Accrued balance as of December 31, 2005	Costs during the six months ended June 30, 2006	Payments during the six months ended June 30, 2006	Adjustments during the six months ended June 30, 2006	Accrued balance as of June 30, 2006
Lease costs[a]	$ 25	$ −	$ (10)	$ 4	$ 19

(a) Total estimated costs, net of estimated sublease income, associated with these accruals are $69, of which $25 was drawn down by cash payments of $22 and non-cash adjustments of $3 prior to January 1, 2006.

2001 Restructuring Plan − by Segment

The following table outlines special charges incurred by segment related to the 2001 Restructuring Plan for the three and six months ended June 30, 2006 and 2005:

	Workforce reduction	Contract settlement and lease costs	Plant and equipment write downs	Total
Mobility and Converged Core Networks				
For the three months ended March 31, 2006	$1	$(1)	$−	$−
For the three months ended June 30, 2006	−	−	−	−
Enterprise Solutions and Packet Networks				
For the three months ended March 31, 2006	−	(1)	−	(1)
For the three months ended June 30, 2006	−	1	−	1
Other	−	−	−	−
Total special charges for the six months ended June 30, 2006	$1	$(1)	$−	$−
Mobility and Converged Core Networks				
For the three months ended March 31, 2005	$(1)	$−	$−	$(1)
For the three months ended June 30, 2005	(1)	1	3	3
Enterprise Solutions and Packet Networks				
For the three months ended March 31, 2005	(2)	−	(8)	(10)
For the three months ended June 30, 2005	(1)	−	1	−
Other	−	−	−	−
Total special charges for the six months ended June 30, 2005	$(5)	$1	$(4)	$(8)

As described in note 5, segment Management EBT does not include special charges. A significant portion of Nortel' s provisions for workforce reductions and contract settlement and lease costs are associated with shared services. These costs have been allocated to the segments in the table above based generally on headcount.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

7. Income taxes

During the six months ended June 30, 2006, Nortel recorded a tax expense of $50 on earnings from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies of $235. The tax expense of $50 is primarily related to the drawdown of Nortel' s deferred tax assets and current tax provisions in certain taxable jurisdictions, including tax adjustments of $13 related to prior tax positions taken in the United Kingdom ("U.K."), and various corporate minimum and other taxes, partially offset by the recognition of R&D related incentives.

During the six months ended June 30, 2005, Nortel recorded a tax expense of $7 on a loss from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies of $102. The tax expense of $7 is primarily related to the drawdown of Nortel' s deferred tax assets and current tax provisions in certain taxable jurisdictions and various corporate minimum and other taxes, partially offset by the recognition of R&D related incentives.

As of June 30, 2006, Nortel' s net deferred tax assets were $3,969, reflecting temporary differences between the financial reporting and tax treatment of certain current assets and liabilities and non-current assets and liabilities, in addition to the tax benefit of net operating and capital loss carry forwards and tax credit carry forwards.

In accordance with SFAS 109, Nortel reviews all available positive and negative evidence to evaluate the recoverability of the deferred tax assets. This includes a review of such evidence as the carry forward periods of the significant tax assets, Nortel' s history of generating taxable income in its material tax jurisdictions, Nortel' s cumulative profits or losses in recent years, and Nortel' s forecast of earnings in its material jurisdictions. On a jurisdictional basis, Nortel is in a cumulative loss position in certain of its material jurisdictions. For these jurisdictions, Nortel continues to maintain a valuation allowance against a portion of its deferred income tax assets. Nortel has concluded that it is more likely than not that the remaining deferred tax assets in these jurisdictions will be realized.

Nortel is subject to ongoing examinations by certain tax authorities of the jurisdictions in which it operates. Nortel regularly assesses the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. Specifically, the tax authorities in Brazil have completed an examination of prior taxation years and have issued assessments in the amount of $56 for the taxation years of 1999 and 2000. In addition, the tax authorities in France have issued two preliminary notices of proposed assessment in respect of the 2001 and 2002 taxation years. These assessments collectively propose adjustments to taxable income of approximately $800 as well as certain adjustments to withholding and other taxes of approximately $50 plus applicable interest and penalties. Nortel believes that it has adequately provided for tax adjustments that are probable as a result of any ongoing or future examinations.

Nortel had previously entered into Advance Pricing Arrangements ("APAs") with the taxation authorities of the U.S. and Canada in connection with its intercompany transfer pricing and cost sharing arrangements between Canada and the U.S. These arrangements expired in 1999 and 2000. In 2002, Nortel filed APA requests with the taxation authorities of the U.S., Canada and the U.K. that applied to the taxation years beginning in 2001. The APA requests are currently under consideration by the tax authorities and discussions have begun to negotiate the terms of the arrangements. Nortel has applied the transfer pricing methodology proposed in the APA requests in preparing its tax returns and accounts beginning in 2001. Nortel has requested that the APA be extended to cover 2005.

The outcome of the APA applications is uncertain and possible allocation of losses, as they relate to the APA negotiations, cannot be determined at this time. However, Nortel does not believe it is probable that the ultimate resolution of these negotiations will have a material adverse effect on its consolidated financial position, results of operations or cash flows. Despite Nortel' s current belief, if this matter is resolved unfavorably, it could have a material adverse effect on Nortel' s consolidated financial position, results of operations and cash flows.

8. Employee benefit plans

Nortel maintains various retirement programs covering substantially all of its employees, consisting of defined benefit, defined contribution and investment plans.

Nortel has four kinds of capital accumulation and retirement programs: balanced capital accumulation and retirement programs (the "Balanced Program") and investor capital accumulation and retirement programs (the "Investor

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Program") available to substantially all of its North American employees; flexible benefits plan, which includes a group personal pension plan (the "Flexible Benefits Plan"), available to substantially all of its employees in the U.K., and traditional capital accumulation and retirement programs that include defined benefit pension plans (the "Traditional Program") which are closed to new entrants in the U.K. and portions of which are closed to new entrants in the U.S. and Canada. Although these four kinds of programs represent Nortel' s major retirement programs and may be available to employees in combination and/or as options within a program, Nortel also has smaller pension plan arrangements in other countries.

Nortel also provides other benefits, including post-retirement benefits and post-employment benefits. Employees in the Traditional Program are eligible for their existing company sponsored post-retirement benefits or a modified version of these benefits, depending on age or years of service. Employees in the Balanced Program are eligible for post-retirement benefits at reduced company contribution levels, while employees in the Investor Program have access to post-retirement benefits by purchasing a Nortel-sponsored retiree health care plan at their own cost.

On June 27, 2006 Nortel announced changes to its North American pension plans effective January 1, 2008. Nortel will move employees currently enrolled in its defined benefit pension plans to defined contribution plans. In addition, Nortel will eliminate post-retirement healthcare benefits for employees who are not age 50 with five years service as of July 1, 2006. The announcement of these changes had no financial impact on Nortel' s pension or post-retirement obligation or related expense as at and for the three months ended June 30, 2006 as Nortel uses September 30 as its annual measurement date for its pension and post-retirement benefit obligations and accordingly recognizes the accounting effects for any plan amendments based on a one-quarter lag. It is expected that these changes will impact Nortel' s unfunded pension liability commencing September 30, 2006.

The following details the net pension expense, all related to continuing operations, for the defined benefit plans for the three and six months ended:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Pension expense:				
Service cost	$36	$30	$71	$65
Interest cost	116	114	229	230
Expected return on plan assets	(115)	(107)	(228)	(216)
Amortization of prior service cost	1	1	2	2
Amortization of net losses (gains)	32	25	63	48
Curtailment, contractual and special termination losses (gains)	8	13	9	25
Net pension expense	$78	$76	$146	$154

The following details the net cost components, all related to continuing operations, of post-retirement benefits other than pensions for the three and six months ended:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Post-retirement benefit cost:				
Service cost	$ 3	$ 2	$ 5	$4
Interest cost	10	11	21	21
Amortization of prior service cost	(1)	(1)	(2)	(2)
Net post-retirement benefit cost	$ 12	$ 12	$ 24	$23

During the six months ended June 30, 2006, contributions of $162 were made to the defined benefit plans and $19 to the post-retirement benefit plans. Nortel expects to contribute an additional $191 in 2006 to the defined benefit pension plans

for a total contribution of $353 and an additional $16 in 2006 to the post-retirement benefit plans for a total contribution of $35.

9. Acquisitions, divestitures and closures

Acquisitions

Tasman Networks Inc.

On February 24, 2006, Nortel acquired 100% of the common and preferred shares of Tasman Networks, for approximately $99 in cash and assumed liabilities. Tasman Networks is an established networking company that provides a portfolio of secure enterprise routers, which will enable Nortel access to low-latency technology to handle packets in secure enterprise environments.

Nortel acquired the assets, certain assumed liabilities and the employees related to the business of Tasman Networks. The aggregate purchase price for Tasman Networks was approximately $99, including estimated costs of acquisition of $6. The purchase price allocation of $99 includes approximately $43 of goodwill acquired, $58 of intangible assets acquired and $2 in net liabilities assumed. The allocation of the purchase price is based on management' s current best estimate of the relative values of the assets acquired and liabilities assumed in Tasman Networks.

The following table sets out the preliminary purchase price allocation information for Tasman Networks:

Purchase price	$99
Assets acquired:	
Cash and cash equivalents	$1
Accounts receivable − net	2
Inventories − net	1
Other current assets	1
Plant and equipment − net	1
Intangible assets − net	58
Goodwill	43
	107
Less liabilities assumed:	
Trade and other accounts payable	3
Other accrued liabilities	5
	8
Fair value of net assets acquired	$99

The preliminary estimates of the fair values and amortization periods of the intangible assets acquired are as follows:

	Fair Value		Amortization Period (years)
Existing router technology	$19		10
Access router technology	16		7
In-process research and development	16	(a)	−
Non-contractual customer relationships	7		8
Total intangible assets	$58		

(a) Nortel expensed $16 for in-process research and development in the second quarter of 2006.

The results of operations of Tasman Networks have been consolidated into Nortel' s results of operations as of February 24, 2006, and were not material to Nortel' s consolidated results of operations.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

LG-Nortel Co. Ltd. Joint Venture

On November 3, 2005, Nortel entered into a joint venture with LG Electronics Inc. ("LG") named LG-Nortel Co. Ltd. ("LG-Nortel"). Although the valuations have not yet been finalized related to the preliminary allocation of the $155 aggregate purchase price, during the second quarter of 2006 Nortel identified certain LG-Nortel projects that may include in-process research and development ("IPR&D"). Once the valuations are finalized, Nortel expects to record an expense for the fair value of the IPR&D.

Divestitures

Manufacturing operations

In 2004, Nortel entered into an agreement with Flextronics regarding the divestiture of substantially all of Nortel' s remaining manufacturing operations and related activities, including certain product integration, testing, repair operations, supply chain management, third party logistics operations and design assets. Nortel and Flextronics have also entered into a four-year supply agreement for manufacturing services (whereby after completion of the transaction, Flextronics will manage approximately $2,500 of Nortel' s annual cost of revenues) and a three-year supply agreement for design services. Commencing in the fourth quarter of 2004 and throughout 2005, Nortel completed the transfer to Flextronics of certain of Nortel' s optical design activities in Ottawa, Canada and Monkstown, Northern Ireland and the manufacturing activities in Montreal, Canada and Chateaudun, France. In the second quarter of 2006, Nortel completed the transfer of the manufacturing operations and related assets including product integration, testing, repair and logistics operations of its Calgary, Canada manufacturing operations to Flextronics, representing the final transfer of Nortel' s manufacturing and related operations to Flextronics.

The agreement with Flextronics resulted in the transfer of approximately 2,100 employees to Flextronics. Nortel expects gross cash proceeds of approximately $600, of which approximately $450 has been received as of June 30, 2006, partially offset by cash outflows incurred to date and expected to be incurred in 2006 attributable to direct transaction costs and other costs associated with the transaction. These proceeds will be subject to a number of adjustments, including potential post-closing date asset valuations and potential post-closing indemnity payments. Any net gain on the sale of this business will be recognized once substantially all of the risks and other incidents of ownership have been transferred.

As of June 30, 2006, Nortel had transferred approximately $406 of inventory and equipment to Flextronics relating to the transfer of the optical design activities in Ottawa and Monkstown and the manufacturing activities in Montreal, Chateaudun and Calgary and recorded deferred income of approximately $36. As Flextronics has the ability to exercise rights to sell back to Nortel certain inventory and equipment after the expiration of a specified period (up to fifteen months) following each respective transfer date, Nortel has retained these assets on its balance sheet to the extent they have not been consumed as part of ongoing operations as at June 30, 2006. Nortel does not expect that rights will be exercised with respect to any material amount of inventory and/or equipment.

10. Long-term debt, credit and support facilities

As a result of the delayed filing of Nortel' s and NNL' s 2005 Annual Reports and Nortel' s and NNL' s Quarterly Reports on Form 10-Q for the quarter ended March 31, 2006 (the "2006 First Quarter Reports") with the SEC, Nortel and NNL were not in compliance with their obligations to deliver their respective SEC filings to the trustees under Nortel' s and NNL' s public debt indentures. With the filing of the 2006 First Quarter Reports with the SEC and the delivery of the 2006 First Quarter Reports to the trustees under Nortel' s and NNL' s public debt indentures, Nortel and NNL became compliant with their delivery obligations under the public debt indentures. Approximately $350 of notes of NNL (or its subsidiaries) and $1,800 of convertible debt securities of Nortel were outstanding under such indentures as of June 30, 2006.

Credit facility

On February 14, 2006, Nortel' s indirect subsidiary, Nortel Networks Inc. ("NNI"), entered into a new one-year credit facility in the aggregate principal amount of $1,300 (the "2006 Credit Facility"). This facility consisted of (i) a senior secured one-year term loan facility in the amount of $850 (the "Tranche A Term Loans"), and (ii) a senior unsecured one-year term loan facility in the amount of $450 (the "Tranche B Term Loans"). The Tranche A Term Loans were

secured equally and ratably with NNL' s obligations under the EDC Support Facility (as defined below) and NNL' s 6.875% Bonds due 2023 by a lien on substantially all of the U.S. and Canadian assets of NNL and the U.S. assets of NNI. The Tranche A Term Loans were secured equally and ratably with NNL' s obligations under the EDC Support Facility by a lien on substantially all of Nortel' s U.S. and Canadian assets. The Tranche A Term Loans and Tranche B Term Loans were guaranteed by Nortel and NNL, and NNL' s obligations under the EDC Support Facility were also guaranteed by Nortel and NNI, in each case until the maturity or prepayment of the 2006 Credit Facility. The 2006 Credit Facility was drawn down in the full amount on February 14, 2006, and Nortel used the net proceeds primarily to repay the outstanding $1,275 aggregate principal amount of NNL' s 6.125% notes that matured on February 15, 2006.

The 2006 Credit Facility contained covenants that limited Nortel' s ability to create liens on its assets and the assets of substantially all of its subsidiaries in excess of certain permitted amounts and limited its ability and the ability of substantially all of its subsidiaries to merge, consolidate or amalgamate with another person. Payments of dividends on the outstanding preferred shares of NNL and payments under the Proposed Class Action Settlement (as defined in note 18) were permitted. NNI was required to prepay the facility in certain circumstances, including in the event of certain debt or equity offerings or asset dispositions of collateral by Nortel, NNL or NNI.

In the second quarter of 2006, Nortel entered into amendment and waiver agreements with the lenders under the 2006 Credit Facility and with EDC under the EDC Support Facility. The amendment and waiver agreements, among other things, waived the events of default that had occurred under the facilities due to the need to restate and make adjustments to Nortel' s and NNL' s financial results for prior periods as well as the delay that occurred in filing Nortel' s and NNL' s 2005 Annual Reports and extended the required filing date of Nortel' s and NNL' s 2006 First Quarter Reports under the 2006 Credit Facility and the EDC Support Facility. The amendment and waiver under the 2006 Credit Facility removed a covenant requiring Nortel to achieve a minimum Adjusted EBITDA (generally defined as consolidated earnings, before interest, taxes, depreciation and amortization, adjusted for certain restructuring charges and other non-recurring charges and gains) and amended a covenant to require that Nortel' s consolidated unrestricted cash and cash equivalents exceed $1,250 at all times and $1,500 on the last day of each fiscal quarter (amended from $1,000 required at all times). The amendment and waiver to the 2006 Credit Facility also made certain adjustments to the restrictions on the incurrence of liens and the provisions determining the percentage of lenders required to amend or waive the terms of the 2006 Credit Facility. Nortel also entered into a further amendment of the 2006 Credit Facility to modify the interest rate applicable to the Tranche A Term Loans and the Tranche B Term Loans. Loans would bear interest at either the "Base Rate" (defined as the higher of the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 0.5% and the prime commercial lending rate of JPMorgan Chase Bank, N.A., established from time to time) or the reserve-adjusted London Interbank Offered Rate ("LIBOR"), in either case plus the Applicable Margin. The amendment revised the definition of "Applicable Margin" contained in the 2006 Credit Facility to mean 200 basis points in the case of Tranche A Term Loans that are LIBOR loans (amended from 225 basis points), 100 basis points in the case of Tranche A Term Loans that are Base Rate loans (amended from 125 basis points), 325 basis points in the case of Tranche B Term Loans that are LIBOR loans (amended from 300 basis points), and 225 basis points in the case of Tranche B Term Loans that are Base Rate loans (amended from 200 basis points). As of June 30, 2006, the Tranche A Term Loans had an interest rate of 7.375% and the Tranche B Term Loans had an interest rate of 8.625%.

On July 5, 2006, NNL completed a $2,000 senior notes offering and refinanced the 2006 Credit Facility. As a result, the 2006 Credit Facility has been classified under long-term debt. For additional information see note 19.

Support facility

On February 14, 2003, Nortel' s principal operating subsidiary, NNL, entered into an agreement with Export Development Canada ("EDC") regarding arrangements to provide for support of certain performance related obligations arising out of normal course business activities for the benefit of Nortel (the "EDC Support Facility"). On December 10, 2004, NNL and EDC amended the terms of the EDC Support Facility by extending the termination date of the EDC Support Facility to December 31, 2006 from December 31, 2005.

Effective October 24, 2005, NNL and EDC amended and restated the EDC Support Facility to maintain the total EDC Support Facility at up to $750, including the existing $300 of committed support for performance bonds and similar instruments, and the extension of the maturity date of the EDC Support Facility for an additional year to December 31, 2007. In connection with this amendment, all guarantee and security agreements previously guaranteeing or securing the obligations of Nortel and its subsidiaries under the EDC Support Facility and Nortel' s public debt securities of Nortel

and its subsidiaries were terminated and the assets of Nortel and its subsidiaries pledged under the security agreements were released in full. EDC also agreed to provide future support under the EDC Support Facility on an unsecured basis and without the guarantees of NNL' s subsidiaries provided that, should NNL or its subsidiaries incur or guarantee certain indebtedness in the future above agreed thresholds of $25 in North America and $100 outside of North America, equal and ratable security and/or guarantees of NNL' s obligations under the EDC Support Facility will be required at that time.

The delayed filing of Nortel' s and NNL' s 2005 Annual Reports and 2006 First Quarter Reports with the SEC, and delayed delivery of such reports to the trustees under Nortel' s and NNL' s public debt indentures and to EDC under the EDC Support Facility gave EDC the right to (i) terminate its commitments under the EDC Support Facility, relating to certain of Nortel' s performance related obligations arising out of normal course business activities, and (ii) exercise certain rights against the collateral pledged under related security agreements or require NNL to cash collateralize all existing support. With the filing and delivery to EDC and to the trustees under Nortel' s and NNL' s public debt indentures, of the 2005 Annual Reports and the 2006 First Quarter Reports and obtaining the amendment and waiver as described above, NNL became compliant with Nortel' s and NNL' s obligations under the EDC Support Facility.

As of June 30, 2006, there was approximately $194 of outstanding support utilized under the EDC Support Facility, approximately $147 of which was outstanding under the revolving small bond sub-facility.

In connection with the $2,000 senior notes offering referenced above, NNL, NNI and EDC entered into a new guarantee agreement dated July 4, 2006 by which NNI agreed to guarantee NNL' s obligations under the EDC Support Facility during such time that such senior notes are guaranteed by NNI. See note 19 for more information on the $2,000 senior notes offering.

11. Guarantees

Nortel has entered into agreements that contain features which meet the definition of a guarantee under FIN 45, "Guarantor' s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 defines a guarantee as a contract that contingently requires Nortel to make payments (either in cash, financial instruments, other assets, common shares of Nortel Networks Corporation or through the provision of services) to a third party based on changes in an underlying economic characteristic (such as interest rates or market value) that is related to an asset, a liability or an equity security of the guaranteed party or a third party' s failure to perform under a specified agreement. A description of the major types of Nortel' s outstanding guarantees as of June 30, 2006 is provided below:

(a) Business sale and business combination agreements

In connection with agreements for the sale of portions of its business, including certain discontinued operations, Nortel has typically retained the liabilities of a business which relate to events occurring prior to its sale, such as tax, environmental, litigation and employment matters. Nortel generally indemnifies the purchaser of a Nortel business in the event that a third party asserts a claim against the purchaser that relates to a liability retained by Nortel. Some of these types of guarantees have indefinite terms while others have specific terms extending to June 2008.

Nortel also entered into guarantees related to the escrow of shares in business combinations in prior periods. These types of agreements generally include indemnities that require Nortel to indemnify counterparties for loss incurred from litigation that may be suffered by counterparties arising under such agreements. These types of indemnities apply over a specified period of time from the date of the business combinations and do not provide for any limit on the maximum potential amount.

Nortel is unable to estimate the maximum potential liability for these types of indemnification guarantees as the business sale agreements generally do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined.

Historically, Nortel has not made any significant indemnification payments under such agreements and no significant liability has been accrued in the consolidated financial statements with respect to the obligations associated with these guarantees.

In conjunction with the sale of a subsidiary to a third party, Nortel guaranteed to the purchaser that specified annual volume levels would be achieved by the business sold over a ten-year period ending December 31, 2007. The maximum

amount that Nortel may be required to pay under the volume guarantee as of June 30, 2006 is $10. A liability of $8 has been accrued in the consolidated financial statements with respect to the obligation associated with this guarantee as of June 30, 2006.

(b) Intellectual property indemnification obligations

Nortel has periodically entered into agreements with customers and suppliers that include intellectual property indemnification obligations that are customary in the industry. These types of guarantees typically have indefinite terms and generally require Nortel to compensate the other party for certain damages and costs incurred as a result of third party intellectual property claims arising from these transactions.

The nature of the intellectual property indemnification obligations generally prevents Nortel from making a reasonable estimate of the maximum potential amount it could be required to pay to its customers and suppliers. Historically, Nortel has not made any significant indemnification payments under such agreements. As of June 30, 2006, Nortel had no intellectual property indemnification obligations for which compensation would be required.

(c) Lease agreements

Nortel has entered into agreements with its lessors that guarantee the lease payments of certain assignees of its facilities to lessors. Generally, these lease agreements relate to facilities Nortel vacated prior to the end of the term of its lease. These lease agreements require Nortel to make lease payments throughout the lease term if the assignee fails to make scheduled payments. Most of these lease agreements also require Nortel to pay for facility restoration costs at the end of the lease term if the assignee fails to do so. These lease agreements have expiration dates through June 2015. The maximum amount that Nortel may be required to pay under these types of agreements is $42 as of June 30, 2006. Nortel generally has the ability to attempt to recover such lease payments from the defaulting party through rights of subrogation.

Historically, Nortel has not made any significant payments under these types of guarantees and no significant liability has been accrued in the consolidated financial statements with respect to the obligations associated with these guarantees.

(d) Third party debt agreements

From time to time, Nortel guarantees the debt of certain customers. These third party debt agreements require Nortel to make debt payments throughout the term of the related debt instrument if the customer fails to make scheduled debt payments. Under most such arrangements, the Nortel guarantee is secured, usually by the assets being purchased or financed. As of June 30, 2006, Nortel had no third party debt agreements that would require it to make any debt payments for its customers.

(e) Indemnification of lenders and agents under credit facilities and EDC Support Facility

Nortel has agreed to indemnify the banks and their agents under its credit facilities against costs or losses resulting from changes in laws and regulations which would increase the banks' costs or reduce their return and from any legal action brought against the banks or their agents related to the use of loan proceeds. Nortel has also agreed to indemnify EDC under the EDC Support Facility against any legal action brought against EDC that relates to the provision of support under the EDC Support Facility. This indemnification generally applies to issues that arise during the term of the EDC Support Facility.

Nortel is unable to estimate the maximum potential liability for these types of indemnification guarantees as the agreements typically do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

Historically, Nortel has not made any significant indemnification payments under such agreements and no significant liability has been accrued in the consolidated financial statements with respect to the obligations associated with these indemnification guarantees.

Nortel has agreed to indemnify certain of its counterparties in certain receivables securitization transactions. The indemnifications provided to counterparties in these types of transactions may require Nortel to compensate counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or in the

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

interpretations of such laws and regulations, or as a result of regulatory penalties that may be suffered by the counterparty as a consequence of the transaction. Certain receivables securitization transactions include indemnifications requiring the repurchase of the receivables if the particular transaction becomes invalid. As of June 30, 2006, Nortel had approximately $284 of securitized receivables which were subject to repurchase under this provision, in which case Nortel would assume all rights to collect such receivables. The indemnification provisions generally expire upon expiration of the securitization agreements, which extend through 2006, or collection of the receivable amounts by the counterparty.

Nortel is generally unable to estimate the maximum potential liability for these types of indemnification guarantees as certain agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

Historically, Nortel has not made any significant indemnification payments or receivable repurchases under such agreements and no significant liability has been accrued in the consolidated financial statements with respect to the obligations associated with these guarantees.

(f) Other indemnification agreements

Nortel has also entered into other agreements that provide indemnifications to counterparties in certain transactions including investment banking agreements, guarantees related to the administration of capital trust accounts, guarantees related to the administration of employee benefit plans, indentures for its outstanding public debt and asset sale agreements (other than the business sale agreements noted above). These indemnification agreements generally require Nortel to indemnify the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or in the interpretations of such laws and regulations and/or as a result of losses from litigation that may be suffered by the counterparties arising from the transactions. These types of indemnification agreements normally extend over an unspecified period of time from the date of the transaction and do not typically provide for any limit on the maximum potential payment amount. In addition, Nortel has entered into indemnification agreements with certain of its directors and officers for the costs reasonably incurred in any proceeding in which they become involved by reason of their position as directors or officers to the extent permitted under applicable law.

The nature of such agreements prevents Nortel from making a reasonable estimate of the maximum potential amount it could be required to pay to its counterparties and directors and officers. The difficulties in assessing the amount of liability result primarily from the unpredictability of future changes in laws, the inability to determine how laws apply to counterparties and the lack of limitations on the potential liability.

Historically, Nortel has not made any significant indemnification payments under such agreements and no significant liability has been accrued in the consolidated financial statements with respect to the obligations associated with these guarantees.

On March 17, 2006, in connection with the Proposed Class Action Settlement, Nortel announced that Nortel and the lead plaintiffs reached an agreement on the related insurance and corporate governance matters including Nortel' s insurers agreeing to pay $228.5 in cash towards the settlement and Nortel agreeing with their insurers to certain indemnification obligations. Nortel believes that these indemnification obligations would be unlikely to materially increase its total cash payment obligations under the Proposed Class Action Settlement, as defined in note 18. The insurance payments would not reduce the amounts payable by Nortel or NNL as disclosed in this report.

Product warranties

The following summarizes the accrual for product warranties that was recorded as part of other accrued liabilities in the consolidated balance sheets as of June 30, 2006:

Balance as of December 31, 2005	$208
Payments	(140)
Warranties issued	138
Revisions	5
Balance as of June 30, 2006	$211

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

12. Commitments

During the first half of 2006, Nortel fulfilled a $232 purchase commitment, which existed at December 31, 2005.

Bid, performance related and other bonds

Nortel has entered into bid, performance related and other bonds associated with various contracts. Bid bonds generally have a term of less than twelve months, depending on the length of the bid period for the applicable contract. Other bonds primarily relate to warranty, rental, real estate and customs contracts. Performance related and other bonds generally have a term of twelve months and are typically renewed, as required, over the term of the applicable contract. The various contracts to which these bonds apply generally have terms ranging from two to five years. Any potential payments which might become due under these bonds would be related to Nortel' s non-performance under the applicable contract. Historically, Nortel has not had to make material payments under these types of bonds and does not anticipate that any material payments will be required in the future.

The following table sets forth the maximum potential amount of future payments under bid, performance related and other bonds, net of the corresponding restricted cash and cash equivalents, as of the following dates:

	June 30, 2006	December 31, 2005
Bid and performance related bonds(a)	$242	$222
Other bonds(b)	40	44
Total bid, performance related and other bonds	$282	$266

(a) Net of restricted cash and cash equivalent amounts of $25 and $36 as of June 30, 2006 and December 31, 2005, respectively.

(b) Net of restricted cash and cash equivalent amounts of $614 and $31 as of June 30, 2006 and December 31, 2005, respectively.

Venture capital financing

Nortel has entered into agreements with selected venture capital firms where the venture capital firms make and manage investments in start-ups and emerging enterprises. The agreements require Nortel to fund requests for additional capital up to its commitments when and if requests for additional capital are solicited by the venture capital firm. Nortel had remaining commitments, if requested, of $26 as of June 30, 2006. These commitments expire at various dates through 2012.

13. Financing arrangements and variable interest entities

Customer financing

Pursuant to certain financing agreements with its customers, Nortel is committed to provide future financing in connection with purchases of Nortel' s products and services. Generally, Nortel facilitates customer financing agreements through customer loans, and Nortel' s commitment to extend future financing is generally subject to conditions related to funding, fixed expiration or termination dates, specific interest rates and qualified purposes. Where permitted, customer financings may also be utilized by Nortel' s customers for their own working capital purposes and may be in the form of equity financing. Nortel' s internal credit committee monitors and attempts to limit Nortel' s exposure to credit risk. Nortel' s role in customer financing consists primarily of arranging financing by matching its customers' needs with external financing sources. Nortel only provides direct customer financing where a compelling strategic customer or

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

technology purpose supports such financing. The following table sets forth customer financing related information and commitments, excluding discontinued operations, as of the following dates:

	June 30, 2006	December 31, 2005
Drawn and outstanding − gross	$46	$51
Provisions for doubtful accounts	(37)	(35)
Drawn and outstanding − net[a]	9	16
Undrawn commitments	51	50
Total customer financing	$60	$66

(a) Included short-term and long-term amounts. Short-term and long-term amounts were included in accounts receivable − net and other assets, respectively, in the consolidated balance sheets.

During the six months ended June 30, 2006 and 2005, net customer financing bad debt expense as a result of settlements and adjustments to other existing provisions was not significant.

During the six months ended June 30, 2006, Nortel did not enter into any new agreements to restructure and/or settle customer financing and related receivables. During the six months ended June 30, 2005, Nortel entered into certain agreements to restructure and/or settle various customer financing and related receivables, including rights to accrued interest. As a result of these transactions, Nortel received cash consideration of approximately $110 ($36 of the proceeds was included in discontinued operations), to settle outstanding receivables with a net carrying value of $100 ($33 of the net carrying value was included in discontinued operations). As of June 30, 2006, all undrawn commitments were available for funding under the terms of the financing agreements.

Consolidation of variable interest entities

Certain lease financing transactions of Nortel were structured through single transaction variable interest entities (“VIEs”) that did not have sufficient equity at risk as defined in FIN 46R “Consolidation of Variable Interest Entities − An Interpretation of ARB No. 51” (“FIN 46R”). Nortel consolidates one VIE for which Nortel was considered the primary beneficiary following the guidance of FIN 46, on the basis that Nortel retained certain risks associated with guaranteeing recovery of the unamortized principal balance of the VIEs debt, which represented the majority of the risks associated with the respective VIEs activities. The amount of the guarantees will be adjusted over time as the underlying debt matures. As of June 30, 2006, Nortel’ s consolidated balance sheet included $86 of long-term debt and $86 of plant and equipment − net related to this VIE. These amounts represented both the collateral and maximum exposure to loss as a result of Nortel’ s involvement with the VIE.

On June 3, 2005, Nortel acquired NGS, a VIE, for which Nortel was considered the primary beneficiary under FIN 46R. The consolidated financial results of Nortel include NGS’ s operating results from the date of the acquisition.

On November 2, 2005, Nortel formed LG-Nortel, a joint venture with LG, which is a VIE. Nortel is considered the primary beneficiary under FIN 46R. No creditor of the entity has recourse to Nortel. This entity’ s financial results have been consolidated from the date of formation.

Nortel consolidates certain assets and liabilities held in an employee benefit trust in Canada, a VIE, for which Nortel was considered the primary beneficiary under FIN 46R.

As of June 30, 2006, Nortel did not have any variable interests related to transfers of financial assets. Nortel has other financial interests and contractual arrangements which would meet the definition of a variable interest under FIN 46R, including investments in other companies and joint ventures, customer financing arrangements, and guarantees and indemnification arrangements. As of June 30, 2006, none of these other interests or arrangements were considered significant variable interests and, therefore, were not disclosed in the financial statements.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

14. Earnings (loss) per common share

The following table details the weighted-average number of Nortel Networks Corporation common shares outstanding for the purposes of computing basic and diluted earnings (loss) per common share for the three and six months ended:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005(a)	2006	2005(a)
(Number of common shares in millions)				
Basic weighted-average shares outstanding:				
Issued and outstanding	4,339	4,273	4,339	4,273
Prepaid forward purchase contracts(b)	−	65	−	65
Basic weighted-average shares outstanding	4,339	4,338	4,339	4,338
Weighted-average shares dilution adjustments:				
Dilutive stock options	1	−	3	−
Diluted weighted-average shares outstanding	4,340	4,338	4,342	4,338
Weighted-average shares dilution adjustments − exclusions:				
Stock options	326	287	324	287
4.25% Convertible Senior Notes	180	180	180	180

(a) As a result of the net loss from continuing operations for the three and six months ended June 30, 2005, all potential dilutive securities were considered anti-dilutive.

(b) The impact of the minimum number of common shares to be issued upon settlement of the prepaid forward purchase contracts on a weighted-average basis was nil and 65 for the six months ended June 30, 2006 and 2005, respectively. As of December 31, 2005, the remaining 3,840 forward purchase contracts outstanding were settled by the holders.

15. Comprehensive income (loss)

The following are the components of comprehensive income (loss), net of tax, for the three and six months ended:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net earnings (loss)	$366	$(33)	$199	$(137)
Other comprehensive income (loss) adjustments:				
Change in foreign currency translation adjustment	117	(95)	145	(162)
Unrealized gain (loss) on investments − net(a)	(34)	(16)	(16)	(23)
Minimum pension liability adjustment − net	−	−	(1)	2
Unrealized derivative gain (loss) on cash flow hedges − net(b)	9	(11)	3	(19)
Comprehensive income (loss)	$458	$(155)	$330	$(339)

(a) Certain securities deemed available-for-sale by Nortel were measured at fair value. Unrealized holding gains (losses) related to these securities were excluded from net earnings (loss) and were included in accumulated other comprehensive income (loss) until realized. Unrealized gain (loss) on investments was net of tax of nil and nil for the three and six months ended June 30, 2006 and 2005, respectively.

(b) During the three and six months ended June 30, 2006, $5 and $9, respectively, of net derivative gains (losses) were reclassified to other income − net. During the three and six months ended June 30, 2005, $5 and $13, respectively, of net derivative gains (losses) were reclassified to other income − net. Nortel estimates that $10 of net derivative gains (losses) included in accumulated other comprehensive income (loss) will be reclassified into net earnings (loss) within the next 12 months.

16. Capital stock and stock-based compensation plans

Common shares

Nortel Networks Corporation is authorized to issue an unlimited number of common shares without nominal or par value. The outstanding number of common shares included in shareholders' equity consisted of the following as of the following dates:

	Number	$
(Number of common shares in thousands)		
Common shares:		
Balance as at December 31, 2005	4,339,163	$33,932
Shares issued pursuant to:		
Stock option plans	206	−
Balance as at June 30, 2006	4,339,369	$33,932

Stock options

Prior to 2005, Nortel granted options to purchase Nortel Networks Corporation common shares under two existing stock option plans, the Nortel Networks Corporation 2000 Stock Option Plan ("2000 Plan") and the Nortel Networks Corporation 1986 Stock Option Plan As Amended and Restated ("1986 Plan"). Under these two plans, options to purchase Nortel Networks Corporation common shares could be granted to employees and, under the 2000 Plan, options could be also granted to directors of Nortel. The options under both plans entitle the holders to purchase one common share at a subscription price of not less than 100% of market value on the effective date of the grant. Subscription prices are stated and payable in U.S. dollars for U.S. options and in Canadian dollars for Canadian options. Generally, options granted prior to 2003 vest 33$^{1}/_{3}$% on the anniversary date of the grant for three years. Commencing in 2003, options granted generally vest 25% each year over a four-year period on the anniversary date of the grant. The committee of the Board of Directors of Nortel that administers both plans generally has the discretion to vary the period during which the holder has the right to exercise options and, in certain circumstances, may accelerate the right of the holder to exercise options, but in no case shall the term of an option exceed ten years. Nortel meets its obligations under both plans by issuing Nortel Networks Corporation common shares. Common shares remaining available for grant after December 31, 2005 under the 2000 Plan and the 1986 Plan (and common shares that become available upon expiration or termination of options granted under such plans) have been rolled-over to the Nortel 2005 Stock Incentive Plan ("SIP") effective January 1, 2006.

During 2005, the shareholders of Nortel approved the SIP stock-based compensation plan, which permits grants of stock options, including incentive stock options, stock appreciation rights ("SARs"), Performance Stock Units ("PSUs") and Restricted Stock Units ("RSUs"). Stock options granted under the SIP may be granted only to employees of Nortel. The subscription price for each share subject to an option shall not be less than 100% of the market value on the effective date of the grant. Subscription prices are stated and payable in U.S. dollars for U.S. options and in Canadian dollars for Canadian options. The options to be granted generally vest 25% each year over a four-year period on the anniversary date of the grant. The committee of the Board of Directors of Nortel that administers the SIP generally has the discretion to vary the period during which the holder has the right to exercise options, but in no case shall options granted become exercisable within the first year, and in certain circumstances, may accelerate the right of the holder to exercise options, but in no case shall the exercise period exceed ten years. Nortel meets its obligations under the SIP by issuing Nortel Networks Corporation common shares.

Stand-alone SARs or SARs in tandem with options may be granted under the SIP. Upon the exercise of a vested SAR, a holder will be entitled to receive payment of an amount equal to the excess of the market value of a common share of Nortel Networks Corporation on the date of exercise over the subscription or base price under the SAR. On the exercise of a tandem SAR, the related option shall be cancelled. As of June 30, 2006 and December 31, 2005, there were no SARs outstanding.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

As of June 30, 2006, the maximum number of common shares authorized by the shareholders and reserved for issuance by the Board of Directors of Nortel under each of the 1986 Plan, 2000 Plan and SIP is as follows:

	Maximum (Number of common shares in thousands)
1986 Plan	
Issuable to employees(a)	469,718
2000 Plan	
Issuable to non-employee directors	500
Issuable to employees	94,000
SIP	
Issuable to employees	122,000

(a) As of June 30, 2006, the maximum number of Nortel Networks Corporation common shares with respect to which options may be granted in any given year under the 1986 Plan is three percent of Nortel Networks Corporation common shares issued and outstanding at the commencement of the year, subject to certain adjustments.

In January 1995, a key contributor stock option program (the "Key Contributor Program") was established that applies to both the 1986 Plan and the 2000 Plan. Under that program, a participant was granted concurrently an equal number of initial options and replacement options. The initial options and the replacement options expire ten years from the date of grant. The initial options have an exercise price equal to the market value of a common share of Nortel Networks Corporation on the date of grant and the replacement options have an exercise price equal to the market value of a common share of Nortel Networks Corporation on the date all of the initial options are fully exercised, provided that in no event will the exercise price be less than the exercise price of the initial options. Replacement options are generally exercisable commencing 36 months after the date all of the initial options are fully exercised, provided that the participant beneficially owns a number of common shares of Nortel Networks Corporation at least equal to the number of common shares subject to the initial options less any common shares sold to pay for options costs, applicable taxes and brokerage costs associated with the exercise of the initial options. No Key Contributor Program options were granted for the six months ended June 30, 2006 and 2005, respectively, under either stock option plan.

During the six months ended June 30, 2006, approximately 390,488 Nortel Networks Corporation common shares were issued pursuant to the exercise of stock options granted under the 1986 Plan and 168,484 Nortel Networks Corporation common shares were issued pursuant to the exercise of stock options granted under the 2000 Plan. During the six months ended June 30, 2006, approximately 38,907,660 stock options, 7,310,000 RSUs and 4,310,000 PSUs were granted under the SIP. During the six months ended June 30, 2006, there were no stock options, RSUs or PSUs exercised under the SIP.

Nortel also assumed stock option plans in connection with the acquisition of various companies. Common shares of Nortel Networks Corporation are issuable upon the exercise of options under the assumed stock option plans, although no further options may be granted under the assumed plans. The vesting periods for options granted under these assumed stock option plans may differ from the SIP, 2000 Plan and 1986 Plan, but are not considered to be significant to Nortel' s overall use of stock-based compensation.

The following is a summary of the total number of outstanding stock options and the maximum number of stock options available for grant:

	Outstanding options (Thousands)	Weighted-average exercise price	Aggregate intrinsic value (Thousands)	Available for grant (Thousands)
Balance at December 31, 2005	302,918	$9.43	$44,553	169,638
Granted options under all stock option plans	38,908	$2.11	$5,059	(50,528) (a)
Options exercised	(604)	$2.26	$504	–
Options forfeited	(4,385)	$4.38		4,485 (a)
Options expired	(9,737)	$16.09		8,909
Balance at June 30, 2006	327,100	$8.56	$5,474	132,504

(a) Amount is inclusive of RSUs and PSUs granted or cancelled. The SIP allows for grants of RSUs and PSUs, which reduce the stock options available for grant.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

The aggregate intrinsic value for the exercises under all share-based payment arrangements was nil for the six months ended June 30, 2005.

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2006:

	Options outstanding				Options exercisable		
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Aggregate Intrinsic Value	Number exercisable	Weighted-average exercise price	Aggregate Intrinsic value
	(Thousands)	(In years)		(Thousands)	(Thousands)		(Thousands)
$0.0084 - $2.3900	84,419	7.9	$2.23	$5,474	34,802	$2.32	$857
$2.3901 - $3.5852	76,479	8.2	$3.02	$−	14,847	$3.18	$−
$3.5853 - $5.3779	6,670	4.5	$5.04	$−	6,653	$5.04	$−
$5.3780 - $8.0670	71,521 (a)	5.2	$6.94	$−	60,658	$6.81	$−
$8.0671 - $12.1006	41,444 (a)	4.0	$9.59	$−	35,575	$9.69	$−
$12.1007 - $18.1510	11,653	1.6	$14.79	$−	11,173	$14.79	$−
$18.1511 - $27.2267	15,522	2.9	$22.74	$−	15,279	$22.77	$−
$27.2268 - $40.8402	9,575	3.0	$33.17	$−	9,565	$33.17	$−
$40.8403 - $61.2605	5,325	2.9	$53.10	$−	5,323	$53.09	$−
$61.2606 - $107.0843	4,492	3.1	$72.86	$−	4,480	$72.84	$−
	327,100	6.1	$8.56	$5,474	198,355 (b)	$11.89	$857

(a) Included approximately 31,663 stock options granted under the Exchange Program.

(b) Total number of exercisable options for the periods ended June 30, 2006 and December 31, 2005 were 198,355 and 185,470, respectively.

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value based on Nortel' s closing stock price of $2.24 as of June 30, 2006, which would have been received by the stock option holders had all stock option holders exercised their options as of that date. The total number of in-the-money options exercisable as of June 30, 2006 was 1,511,609.

Nonvested shares

Nortel' s nonvested share awards consist of options granted under all of Nortel' s stock option plans and RSU and PSU awards granted under the SIP. The fair value of each nonvested share award is calculated using the stock price at the date of grant. A summary of the status of nonvested share awards as of June 30, 2006 and changes during the first six months ended June 30, 2006 is presented below.

	Options		RSU awards		PSU awards	
	Shares	Weighted-average grant date fair value	Shares	Weighted-average grant date fair value(a)	Shares	Weighted-average grant date fair value(b)
	(Thousands)		(Thousands)		(Thousands)	
Nonvested shares at December 31, 2005	117,448	$4.09	6,972	$3.15	−	$−
Granted	38,908	$2.11	7,310	$2.11	4,310	$2.26
Vested	(23,226)	$4.64	−	$−	−	$−
Forfeited	(4,385)	$4.38	(100)	$2.92	−	$−
Nonvested shares at June 30, 2006	128,745	$3.42	14,182	$2.63	4,310	$2.27

(a) RSU awards do not have an exercise price therefore grant date weighted average fair value has been calculated.

(b) PSU awards do not have an exercise price therefore grant date weighted average fair value has been calculated using a Monte Carlo simulation model.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

As of June 30, 2006, there was $167 of total unrecognized compensation cost related to Nortel' s nonvested stock options that is expected to be recognized over a weighted average period of 2.9 years.

Restricted stock units and Performance stock units

RSUs and PSUs can be issued under the SIP. RSUs generally become vested based on employment and PSUs generally become vested subject to the attainment of performance criteria. Each RSU or PSU granted under the SIP generally represents one common share of Nortel Networks Corporation. Vested units will generally be settled upon vesting by delivery of a common share of Nortel Networks Corporation for each vested unit or payment of a cash amount equal to the market value of a common share of Nortel Networks Corporation at the time of settlement, as determined in the discretion of the Compensation and Human Resources Committee (formerly the Joint Leadership Resources Committee) ("CHRC").

The number of RSUs (in millions) granted during the six months ended June 30, 2006 and June 30, 2005, were 7 and nil, respectively. All of the RSUs awarded to executive officers in 2005 and going forward vest in equal installments on the first three anniversary dates of the date of the award. The RSUs awarded in 2005 under the SIP and going forward will be settled in shares at the time of vesting or, in the discretion of the CHRC, cash.

The number of PSUs (in millions) granted during the six months ended June 30, 2006 and June 30, 2005, were 4 and nil, respectively. Vesting and settlement of PSUs at the end of the three year performance period will depend upon the level of achievement of certain performance criteria based on the relative total shareholder return on the common shares of Nortel Networks Corporation compared to the total shareholder return on the common shares of a comparative group of companies included in the Dow Jones Sector Titans -Technology Index (the "Technology Index"). The number of shares to be issued for the vested PSUs are determined based on Nortel' s ranking within the Technology Index and can range from 0% to 200%.

A summary of the total number of outstanding RSU awards granted during the six months ended June 30, 2006 and the changes during the six months ended June 30, 2006 is presented below:

	Outstanding RSU awards granted	Weighted-average grant date fair value[a]	Weighted average remaining contractual life
	(Thousands)		(In years)
Balance at December 31, 2005	6,972	$3.15	9.7
Granted RSU awards	7,310	$2.11	
Awards exercised	−	$−	
Awards forfeited	(100)	$2.92	
Awards expired	−	$−	
Balance at June 30, 2006	14,182	$2.63	9.6

(a) RSU awards do not have an exercise price therefore grant date weighted average fair value has been calculated. The grant date fair value for the RSU awards is the stock price on the date of grant.

As of June 30, 2006, there were no vested RSU awards.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

A summary of the total number of outstanding PSU awards granted during the six months ended June 30, 2006 and the changes during the six months ended June 30, 2006 is presented below:

	Outstanding PSU awards granted	Weighted-average grant date fair value(a)	Weighted average remaining contractual life
	(Thousands)		(In years)
Balance at December 31, 2005	−	$−	−
Granted PSU awards	4,310	$2.26	
Awards exercised	−	$−	
Awards forfeited	−	$−	
Awards expired	−	$−	
Balance at June 30, 2006	4,310	$2.27	10.0

(a) PSU awards do not have an exercise price therefore grant date weighted average fair value has been calculated. The grant date fair value for the PSU awards was determined using a Monte Carlo simulation model.

As of June 30, 2006, there were no vested PSU awards.

Stock-based compensation

Effective January 1, 2006, Nortel adopted SFAS 123R, which revises SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Nortel adopted SFAS 123R using the modified prospective transition method and accordingly the results of prior periods have not been restated. This method requires that the provisions of SFAS 123R are generally applied only to share-based awards granted, modified, repurchased or cancelled on January 1, 2006 and thereafter. Nortel voluntarily adopted fair value accounting for share-based awards effective January 1, 2003 (under SFAS 123 as amended by SFAS No. 148 "Accounting for Stock-Based Compensation − Transition and Disclosure an amendment of SFAS 123). Using the prospective method, Nortel measured the cost of share-based awards granted or modified on or after January 1, 2003 using the fair value of the award and began recognizing that cost in the consolidated statements of operations over the vesting period. Nortel will recognize the remaining cost of these awards over the remaining service period following the provisions of SFAS 123R. For those grants prior to January 1, 2003, that are nonvested and outstanding as of January 1, 2006, Nortel will recognize the remaining cost of these awards over the remaining service period as required by the new standard.

Nortel did not accelerate the recognition of expense for those awards that applied to retirement eligible employees prior to the adoption of SFAS 123R, but rather expensed those awards over the vesting period. Therefore, an expense of approximately $2 was recognized during the six months ended June 30, 2006, that would have not been recognized had Nortel accelerated recognition of the expense prior to January 1, 2006, the adoption date of SFAS 123R.

SFAS 123R requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. As share-based compensation expense recognized in the consolidated statement of operations for the three and six months ended June 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Prior to the adoption of SFAS 123R Nortel recognized forfeitures as they occurred. Nortel recorded a gain of $9 as a cumulative effect of an accounting change, as a result of the change in accounting for forfeitures under SFAS 123R. In Nortel' s pro forma information required under SFAS 123 for the periods prior to fiscal 2006, Nortel accounted for forfeitures as they occurred.

In November 2005, the FASB issued FASB FSP No. 123R-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" ("FSP FAS 123R-3"). Nortel elected to adopt the alternative transition method to SFAS 123R in accounting for the tax effects of share-based payment awards to employees. The elective method comprises a computational component that establishes a beginning balance of the Additional Paid In Capital ("APIC") pool related to employee compensation and a simplified method to determine the subsequent impact on the APIC pool of employee awards that are fully vested and outstanding upon the adoption of SFAS 123R. As of June 30,

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

2006, the APIC balance was nil, and there were no other material impacts as a result of the adoption of FSP FAS 123R-3.

Pro forma disclosure

Had Nortel applied the fair value based method to all stock-based awards in all periods, reported net earnings (loss) and earnings (loss) per common share would have been adjusted to the pro forma amounts indicated below for the three and six months ended:

	Three months ended June 30, 2005	Six months ended June 30, 2005
Net earnings (loss) − reported	$(33)	$(137)
Stock-based compensation − reported	18	36
Stock-based compensation − pro forma(a)	(18)	(43)
Net earnings (loss) − pro forma	$(33)	$(144)
Basic earnings (loss) per common share:		
Reported	$(0.01)	$(0.03)
Pro forma	$(0.01)	$(0.03)
Diluted earnings (loss) per common share:		
Reported	$(0.01)	$(0.03)
Pro forma	$(0.01)	$(0.03)

(a) Stock-based compensation − pro forma expense was net of tax of nil.

Stock-based compensation recorded during the three and six months ended was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Stock-based compensation:				
Stock option expense	$ 27	$ 18	$41 (b)	$37
RSU expense(a)	1	–	3	–
PSU expense	–	–	–	–
DSU expense(a)	–	–	–	(1)
Total stock-based compensation reported − net of tax	$ 28	$ 18	$44	$36

(a) Compensation related to employer portion of RSUs and Director Stock Units ("DSUs") was net of tax of nil in each period.

(b) Includes a reduction of stock option expense of approximately $9, recognized during the first quarter of 2006, to align Nortel' s recognition of stock option forfeitures with the adoption of SFAS 123R.

Nortel estimates the fair value of stock options using the Black-Scholes-Merton option-pricing model, consistent with the provisions of SFAS 123R and SAB 107, and Nortel' s prior period pro forma disclosures of net earnings, including share-based compensation. The key input assumptions used to estimate the fair value of stock options include the grant price of the award, the expected term of the options, the volatility of Nortel' s stock, the risk-free rate, the annual forfeiture rate and Nortel' s dividend yield. Nortel believes that the Black-Scholes-Merton option-pricing model utilized to develop the underlying assumptions, is appropriate in calculating the fair values of Nortel' s stock options.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

The following weighted-average assumptions were used in computing the fair value of stock options for purposes of expense recognition and pro forma disclosures, as applicable, for the three and six months ended:

	Three months ended June 30, 2006		Six months ended June 30, 2006	
Black-Scholes weighted-average assumptions				
Expected dividend yield	0.00	%	0.00	%
Expected volatility(b)	73.99	%	73.99	%
Risk-free interest rate(c)	5.01	%	5.01	%
Expected option life in years(a)	4		4	
Weighted-average stock option fair value per option granted	$1.23		$1.23	

(a) The expected term of the options is estimated based on historical grants with similar vesting periods.

(b) The expected volatility of Nortel' s stock is estimated using the daily historical stock prices over a period equal to the expected term.

(c) The risk free rate used was the five year government treasury bill rate.

The fair value of RSU awards is the stock price on the date of grant. Nortel estimates the fair value of PSU awards using a Monte Carlo simulation model, consistent with the provisions of SFAS 123R. Certain assumptions used in the model include (but are not limited to) the following for the three and six months ended:

	Three months ended June 30, 2006		Six months ended June 30, 2006	
Monte Carlo assumptions				
Beta	2.1		2.1	
Risk-free interest rate(a)	5.13	%	5.13	%
Equity risk premium	5.00	%	5.00	%

(a) The risk free rate used was the three year government treasury bill rate.

As of June 30, 2006, the annual forfeiture rates applied to the Nortel stock option plans were 13% and 7% for the RSU and PSU awards.

The compensation cost that has been charged against income for Nortel' s share-based award plans was $27 and $41 for the three and six months ended June 30, 2006, respectively, and $18 and $37 for the three and six months ended June 30, 2005, respectively. The total income tax benefit recognized in the statements of operations for stock-based award compensation was nil and nil for the three and six months ended June 30, 2006 and 2005, respectively.

As of June 30, 2006, there was $198 of total unrecognized compensation cost related to Nortel' s stock option plans that is expected to be recognized over a weighted average period of two years. As of June 30, 2006, there was $30 of total unrecognized compensation cost related to Nortel' s RSU awards granted which is expected to be recognized over a weighted average period of three years. As of June 30, 2006, there was $9 of total unrecognized compensation cost related to Nortel' s PSU awards granted which is expected to be recognized over a weighted average period of three years.

Cash received from exercise under all share-based payment arrangements was $1 for the six months ended June 30, 2006 and $1 for the six months ended June 30, 2005. Tax benefits realized by Nortel related to these exercises were nil and nil, for the six months ended June 30, 2006 and 2005, respectively.

During the six months ended June 30, 2006, 38,907,660 stock options, 7,310,000 RSUs and 4,310,000 PSUs were granted.

Suspension of Nortel Stock based compensation plans

As a result of Nortel' s March 10, 2006 announcement that it and NNL would have to delay the filing of its 2005 Annual Reports, Nortel suspended, as of March 10, 2006, the grant of any new equity and exercise or settlement of previously outstanding awards under the SIP; the purchase of Nortel Networks Corporation common shares under the stock purchase

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

plans for eligible employees in eligible countries that facilitate the acquisition of Nortel Networks Corporation common shares; the exercise of outstanding options granted under the 2000 Plan and the 1986 Plan, or the exercise of outstanding options granted under employee stock option plans previously assumed by Nortel in connection with mergers and acquisitions; and the purchase of units in a Nortel Networks stock fund or purchase of Nortel Networks Corporation common shares under defined contribution and investment plans. In the second quarter Nortel lifted the suspension on the stock based compensation plans, upon its compliance with the U.S. and Canadian regulatory securities filing requirements with the filing of Nortel' s 2006 First Quarter Reports.

17. Related party transactions

In the ordinary course of business, Nortel engages in transactions with certain of its equity-owned investees that are under or are subject to Nortel' s significant influence and with joint ventures of Nortel. These transactions are sales and purchases of goods and services under usual trade terms and are measured at their exchange amounts.

Transactions with related parties for the three and six months ended are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenues	$ 3	$ −	$5	$−
Purchases:				
Bookham	$ 9	$ 2	$12	$6
LG Electronics Inc.(a)	58	−	111	−
Sasken Communications Technology Ltd.(b)	9	2	17	2
Other	12	−	21	−
Total	$ 88	$ 4	$161	$8

(a) LG holds a minority interest in LG-Nortel. Nortel' s purchases relate primarily to certain inventory related items. As of June 30, 2006, accounts payable to LG were $50, compared to $18 as at December 31, 2005.

(b) Nortel currently owns a minority interest in Sasken Communications Technology Ltd. ("Sasken"). Nortel' s purchases from Sasken relate primarily to software and other software development related purchases. As of June 30, 2006, accounts payable to Sasken were $2, compared to $2 as at December 31, 2005.

As of June 30, 2006 and December 31, 2005, accounts receivable from related parties were $8 and $8, respectively. As of June 30, 2006 and December 31, 2005, accounts payable to related parties were $55 and $26, respectively.

Nortel purchases certain inventory for its Enterprise Solutions and Packet Networks business from Bookham, Inc. ("Bookham"), a related party due to Nortel' s equity interest in Bookham. Bookham is a supplier of key optical components to Nortel' s optical networks solutions in its Enterprise Solutions and Packet Networks segment. As of June 30, 2006 and December 31, 2005, accounts payable to Bookham were nil and nil, respectively.

On December 2, 2004, Nortel and Bookham entered into a restructuring agreement which, among other changes, extended the maturity date of a senior secured note (the "Series B Note") by one year from November 8, 2005 to November 8, 2006, and eliminated the conversion feature of a senior unsecured note (the "Series A Note"). Bookham also agreed to secure the Series A Note, provide additional collateral for the Series A Note and the Series B Note, and provide Nortel with other debt protection covenants. On January 13, 2006, Nortel received $20 in cash plus accrued interest from Bookham to retire its $20 aggregate principal amount Series A secured note receivable due November 2007. In addition, Nortel sold its $25.9 aggregate principal amount Series B secured note receivable due November 2006 for approximately $26 to a group of unrelated investors.

On January 13, 2006, Nortel announced that it had entered into an agreement with Bookham to amend the current supply agreement and extend certain purchase commitments, which were scheduled to expire on April 29, 2006. Under the terms of the amended supply agreement, Nortel will purchase a minimum of $72 in product from Bookham during the calendar year of 2006. In addition, Nortel has entered into an agreement on the same date as the supply agreements under which Nortel agreed not to sell the approximately 4 million shares of Bookham common stock that it currently owns until after June 30, 2006.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

18. Contingencies

Subsequent to the February 15, 2001 announcement in which Nortel provided revised guidance for financial performance for the 2001 fiscal year and the first quarter of 2001, Nortel and certain of its then current officers and directors were named as defendants in more than twenty-five purported class action lawsuits. These lawsuits in the U.S. District Courts for the Eastern District of New York, the Southern District of New York and the District of New Jersey and in courts in the provinces of Ontario, Québec and British Columbia in Canada, on behalf of shareholders who acquired Nortel Networks Corporation securities as early as October 24, 2000 and as late as February 15, 2001, allege, among other things, violations of U.S. federal and Canadian provincial securities laws. These matters also have been the subject of review by Canadian and U.S. securities regulatory authorities.

On May 11, 2001, the defendants filed motions to dismiss and/or stay in connection with the three proceedings in Québec primarily based on the factual allegations lacking substantial connection to Québec and the inclusion of shareholders resident in Québec in the class claimed in the Ontario lawsuit. The plaintiffs in two of these proceedings in Québec obtained court approval for discontinuances of their proceedings on January 17, 2002. The motion to dismiss and/or stay the third proceeding (the "Québec I Action") was heard on November 6, 2001 and the court deferred any determination on the motion to the judge who will hear the application for authorization to commence a class proceeding. On December 6, 2001, the defendants filed a motion seeking leave to appeal that decision. The motion for leave to appeal was dismissed on March 11, 2002.

On October 16, 2001, an order in the U.S. District Court for the Southern District of New York was filed consolidating twenty-five of the related U.S. class action lawsuits into a single case, appointing class plaintiffs and counsel for such plaintiffs (the "Nortel I Class Action"). The plaintiffs served a consolidated amended complaint on January 18, 2002.

On December 17, 2001, the defendants in the British Columbia action (the "British Columbia Action") served notice of a motion requesting the court to decline jurisdiction and to stay all proceedings on the grounds that British Columbia is an inappropriate forum. The motion has been adjourned at the plaintiffs' request to a future date to be set by the parties.

On April 1, 2002, Nortel filed a motion to dismiss the Nortel I Class Action on the ground that it failed to state a cause of action under U.S. federal securities laws. On January 3, 2003, the District Court denied the motion to dismiss the consolidated amended complaint for the Nortel I Class Action. On March 10, 2004, the District Court approved the form of notice to the class, which was published and mailed.

On July 17, 2002, a new purported class action lawsuit (the "Ontario Claim") was filed in the Ontario Superior Court of Justice, Commercial List, naming Nortel, certain of its current and former officers and directors and its auditors as defendants. The factual allegations in the Ontario Claim are substantially similar to the allegations in the Nortel I Class Action. The Ontario Claim is on behalf of all Canadian residents who purchased Nortel Networks Corporation securities (including options on Nortel Networks Corporation securities) between October 24, 2000 and February 15, 2001. The plaintiffs claim damages of Canadian $5,000, plus punitive damages in the amount of Canadian $1,000, prejudgment and postjudgment interest and costs of the action.

Subsequent to the March 10, 2004 announcement in which Nortel indicated it was likely that it would need to revise its previously announced unaudited results for the year ended December 31, 2003, and the results reported in certain of its quarterly reports for 2003, and to restate its previously filed financial results for one or more earlier periods, Nortel and certain of its then current and former officers and directors were named as defendants in 27 purported class action lawsuits. These lawsuits in the U.S. District Court for the Southern District of New York on behalf of shareholders who acquired Nortel Networks Corporation securities as early as February 16, 2001 and as late as May 15, 2004, allege, among other things, violations of U.S. federal securities laws. These matters are also the subject of investigations by Canadian and U.S. securities regulatory and criminal investigative authorities. On June 30, 2004, the Court signed Orders consolidating the 27 class actions (the "Nortel II Class Action") and appointing lead plaintiffs and lead counsel. The plaintiffs filed a consolidated class action complaint on September 10, 2004, alleging a class period of April 24, 2003 through and including April 27, 2004. On November 5, 2004, Nortel and the Audit Committee Defendants filed a motion to dismiss the consolidated class action complaint. On January 18, 2005, the lead plaintiffs, Nortel and the Audit Committee Defendants reached an agreement in which Nortel would withdraw its motion to dismiss and plaintiffs would dismiss Count II of the complaint, which asserts a claim against the Audit Committee Defendants. On May 13, 2005, the plaintiffs filed a motion for class certification. On September 16, 2005, lead plaintiffs filed an amended consolidated

class action complaint that rejoined the previously dismissed Audit Committee Defendants as parties to the action. On March 16, 2006, the plaintiffs withdrew their motion for class certification.

On July 28, 2004, Nortel and NNL, and certain of their current and former officers and directors, were named as defendants in a purported class proceeding in the Ontario Superior Court of Justice on behalf of shareholders who acquired Nortel Networks Corporation securities as early as November 12, 2002 and as late as July 28, 2004 (the "Ontario I Action"). This lawsuit alleges, among other things, breaches of trust and fiduciary duty, oppressive conduct and misappropriation of corporate assets and trust property in respect of the payment of cash bonuses to executives, officers and employees in 2003 and 2004 under the Nortel Return to Profitability bonus program and seeks damages of Canadian $250 and an order under the Canada Business Corporations Act directing that an investigation be made respecting these bonus payments.

On February 16, 2005, a motion for authorization to institute a class action on behalf of residents of Québec, who purchased Nortel securities between January 29, 2004 and March 15, 2004, was filed in the Québec Superior Court naming Nortel as a defendant (the "Québec II Action"). The motion alleged that Nortel made misrepresentations about 2003 financial results.

On March 9, 2005, Nortel and certain of its current and former officers and directors and its auditors were named as defendants in a purported class action proceeding filed in the Ontario Superior Court of Justice, Commercial List, on behalf of all Canadian residents who purchased Nortel Networks Corporation securities from April 24, 2003 to April 27, 2004 (the "Ontario II Action"). This lawsuit alleged, among other things, negligence, misrepresentations, oppressive conduct, insider trading and violations of Canadian corporation and competition laws in connection with Nortel' s 2003 financial results and seeks damages of Canadian $3,000, plus punitive damages in the amount of Canadian $1,000, prejudgment and postjudgment interest and costs of the action.

On September 30, 2005, Nortel announced that a mediator had been jointly appointed by the two U.S. District Court Judges presiding over the Nortel I Class Action and the Nortel II Class Action to oversee settlement negotiations between Nortel and the lead plaintiffs in these two actions. The appointment of the mediator was pursuant to a request by Nortel and the lead plaintiffs for the Courts' assistance to facilitate the possibility of achieving a global settlement regarding these actions. The settlement discussions before the mediator were confidential and non-binding on the parties without prejudice to their respective positions in the litigation. The mediator, United States District Court Judge the Honorable Robert W. Sweet, is not presiding over either of these actions. On February 8, 2006, Nortel announced that, as a result of this mediation process, Nortel and the lead plaintiffs in the Nortel I Class Action and the Nortel II Class Action reached an agreement in principle to settle these lawsuits (the "Proposed Class Action Settlement").

The Proposed Class Action Settlement would be part of, and was conditioned on, Nortel reaching a global settlement encompassing all pending shareholder class actions and proposed shareholder class actions commenced against Nortel and certain other defendants following Nortel' s announcement of revised financial guidance during 2001, and Nortel' s revision of its 2003 financial results and restatement of other prior periods, including, without limitation, the Nortel I Class Action, the Nortel II Class Action, the Ontario Claim, the Québec I Action, the British Columbia Action, the Québec II Action and the Ontario II Action.

The Proposed Class Action Settlement was also conditioned on Nortel and the lead plaintiffs reaching agreement on corporate governance related matters and the resolution of insurance related issues. On March 17, 2006, Nortel announced that it and the lead plaintiff had reached such an agreement with Nortel' s insurers agreeing to pay $228.5 in cash towards the settlement and Nortel agreeing with its insurers to certain indemnification obligations. Nortel believes that these indemnification obligations would be unlikely to materially increase its total cash payment obligations under the Proposed Class Action Settlement. The insurance payments would not reduce the amounts payable by Nortel as noted below. Nortel also agreed to certain corporate governance enhancements, including the codification of certain of its current governance practices in its Board of Directors written mandate and the inclusion in its annual proxy circular and proxy statement of a report on certain of its other governance practices. On June 21, 2006, Nortel reached an agreement with the lead plaintiffs on the corporate governance related matters.

Under the terms of the Proposed Class Action Settlement, Nortel would make a payment of $575 in cash, issue 628,667,750 of Nortel Networks Corporation common shares (representing 14.5% of Nortel' s equity as of February 7, 2006), and contribute one-half of any recovery in Nortel' s existing litigation against Messrs. Frank Dunn, Douglas Beatty and Michael Gollogly, Nortel' s former senior officers who were terminated for cause in April 2004, seeking the return of

payments made to them under Nortel' s bonus plan in 2003. On June 1, 2006, Nortel placed $575 plus related interest of $5 into escrow and classified this amount as restricted cash as of June 30, 2006. In addition, Nortel' s insurers agreed to pay $228.5 in cash towards the settlement. Nortel has recorded an asset of $228.5 to reflect the insurance proceeds with an offsetting increase in the shareholder litigation settlement provision included in other accrued liabilities. On April 3, 2006, the insurance proceeds were placed in escrow by the insurers. In the event of a share consolidation of Nortel Networks Corporation common shares, the number of Nortel Networks Corporation common shares to be issued pursuant to the Proposed Class Action Settlement would be adjusted accordingly. The total settlement amount would include all plaintiffs' court-approved attorneys' fees. As a result of the Proposed Class Action Settlement, Nortel has established a litigation provision and recorded a charge to its full-year 2005 financial results of $2,474 (net of insurance proceeds), and a reduction of the expense of $510 and $491 for the three and six months ended June 30, 2006 respectively, to reflect the fair value mark-to-market adjustment of the Nortel Networks Corporation common shares. Of the total net shareholder lawsuit charges recorded as of the six months ended June 30, 2006, $575 relates to the proposed cash portion of the Proposed Class Action Settlement, while $1,408 relates to the proposed equity component and will continue to be adjusted in future quarters based on the fair value of the Nortel Networks Corporation common shares issuable until the finalization of the settlement. Any change to the terms of the Proposed Class Action Settlement would likely result in an adjustment to the litigation provision.

On June 21, 2006, Nortel announced that it entered into stipulations and agreements of settlement with the lead plaintiffs and an agreement with the plaintiffs in the Canadian actions with respect to the Proposed Class Action Settlement. The settlement remains conditioned, among other things, on receipt of all required court, securities regulatory and stock exchange approvals. The Proposed Class Action Settlement and related litigation provision do not relate to ongoing regulatory and criminal investigations and do not encompass the Employee Retirement Income Security Act ("ERISA") action filed in December 2001, the application in Canada for leave to commence a shareholders' derivative action against certain current and former officers and directors of Nortel filed in December 2005 and the Ontario I Action against Nortel and certain current and former directors and certain former officers, each as described in this note.

In addition to the shareholder class actions encompassed by the Proposed Class Action Settlement, Nortel is also subject to ongoing regulatory and criminal investigations and related matters relating to its accounting restatements, and to certain other class actions, securities litigation and other actions described below. The Proposed Class Action Settlement and the litigation provision charge taken in connection with the Proposed Class Action Settlement do not relate to these matters. Nortel has not provided any additional provisions at this time for any potential judgments, fines, penalties or settlements that may arise from these other pending investigations or actions (other than for professional fees and expenses incurred).

On April 5, 2004, Nortel announced that the SEC had issued a formal order of investigation in connection with Nortel' s previous restatement of its financial results for certain periods, as announced in October 2003, and Nortel' s announcements in March 2004 regarding the likely need to revise certain previously announced results and restate previously filed financial results for one or more periods. The matter had been the subject of an informal SEC inquiry. On April 13, 2004, Nortel announced that it had received a letter from the staff of the Ontario Securities Commission (the "OSC") advising that there is an OSC Enforcement Staff investigation into the same matters that are the subject of the SEC investigation.

On May 14, 2004, Nortel announced that it had received a federal grand jury subpoena for the production of certain documents, including financial statements and corporate, personnel and accounting records, in connection with an ongoing criminal investigation being conducted by the U.S. Attorney' s Office for the Northern District of Texas, Dallas Division. On August 23, 2005, Nortel received an additional federal grand jury subpoena in this investigation seeking production of additional documents, including documents relating to the Nortel Retirement Income Plan and the Nortel Long-Term Investment Plan.

On August 16, 2004, Nortel received a letter from the Integrated Market Enforcement Team of the Royal Canadian Mounted Police ("RCMP") advising Nortel that the RCMP would be commencing a criminal investigation into Nortel' s financial accounting situation.

A purported class action lawsuit was filed in the U.S. District Court for the Middle District of Tennessee on December 21, 2001, on behalf of participants and beneficiaries of the Nortel Long-Term Investment Plan (the "Plan") at any time during the period of March 7, 2000 through the filing date and who made or maintained Plan investments in

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Nortel Networks Corporation common shares, under the ERISA for Plan-wide relief and alleging, among other things, material misrepresentations and omissions to induce Plan participants to continue to invest in and maintain investments in Nortel Networks Corporation common shares in the Plan. A second purported class action lawsuit, on behalf of the Plan and Plan participants for whose individual accounts the Plan purchased Nortel Networks Corporation common shares during the period from October 27, 2000 to February 15, 2001 and making similar allegations, was filed in the same court on March 12, 2002. A third purported class action lawsuit, on behalf of persons who are or were Plan participants or beneficiaries at any time since March 1, 1999 to the filing date and making similar allegations, was filed in the same court on March 21, 2002. The first and second purported class action lawsuits were consolidated by a new purported class action complaint, filed on May 15, 2002 in the same court and making similar allegations, on behalf of Plan participants and beneficiaries who directed the Plan to purchase or hold shares of certain funds, which held primarily Nortel Networks Corporation common shares, during the period from March 7, 2000 through December 21, 2001. A fourth purported class action lawsuit, on behalf of the Plan and Plan participants for whose individual accounts the Plan held Nortel Networks Corporation common shares during the period from March 7, 2000 through March 31, 2001 and making similar allegations, was filed in the U.S. District Court for the Southern District of New York on March 12, 2003. On March 18, 2003, plaintiffs in the fourth purported class action filed a motion with the Judicial Panel on Multidistrict Litigation to transfer all the actions to the U.S. District Court for the Southern District of New York for coordinated or consolidated proceedings pursuant to 28 U.S.C. section 1407. On June 24, 2003, the Judicial Panel on Multidistrict Litigation issued a transfer order transferring the Southern District of New York action to the U.S. District Court for the Middle District of Tennessee (the "Consolidated ERISA Action"). On September 12, 2003, the plaintiffs in all the actions filed a consolidated class action complaint. On October 28, 2003, the defendants filed a motion to dismiss the complaint and a motion to stay discovery pending disposition of the motion to dismiss. On March 30, 2004, the plaintiffs filed a motion for certification of a class consisting of participants in, or beneficiaries of, the Plan who held shares of the Nortel Stock Fund during the period from March 7, 2000 through March 31, 2001. On April 27, 2004, the Court granted the defendants' motion to stay discovery pending resolution of defendants' motion to dismiss. On June 15, 2004, the plaintiffs filed a First Amended Consolidated Class Action Complaint that added additional current and former officers and employees as defendants and expanded the purported class period to extend from March 7, 2000 through to June 15, 2004. On June 17, 2005, the plaintiffs filed a Second Amended Consolidated Class Action Complaint that added additional current and former directors, officers and employees as defendants and alleged breach of fiduciary duty on behalf of the Plan and as a purported class action on behalf of participants and beneficiaries of the Plan who held shares of the Nortel Networks Stock Fund during the period from March 7, 2000 through June 17, 2005. On July 8, 2005, the defendants filed a Renewed Motion to Dismiss Plaintiffs' Second Amended Class Action Complaint. On July 29, 2005, plaintiffs filed an opposition to the motion, and defendants filed a reply memorandum on August 12, 2005. On March 30, 2006, the defendants filed an additional motion to dismiss raising the jurisdictional challenge that all former plan participants, including one of the named plaintiffs, lack standing to assert a claim under ERISA. On April 17, 2006, the plaintiffs filed a motion to strike this motion to dismiss. On May 5, 2006, the defendants filed a reply brief in support of this motion to dismiss.

On May 18, 2004, a purported class action lawsuit was filed in the U.S. District Court for the Middle District of Tennessee on behalf of individuals who were participants and beneficiaries of the Plan at any time during the period of December 23, 2003 through the filing date and who made or maintained Plan investments in Nortel Networks Corporation common shares, under the ERISA for Plan-wide relief and alleging, among other things, breaches of fiduciary duty. On September 3, 2004, the Court signed a stipulated order consolidating this action with the Consolidated ERISA Action described above. On June 16, 2004, a second purported class action lawsuit, on behalf of the Plan and Plan participants for whose individual accounts the Plan purchased Nortel Networks Corporation common shares during the period from October 24, 2000 to June 16, 2004, and making similar allegations, was filed in the U.S. District Court for the Southern District of New York. On August 6, 2004, the Judicial Panel on Multidistrict Litigation issued a conditional transfer order to transfer this action to the U.S. District Court for the Middle District of Tennessee for coordinated or consolidated proceedings pursuant to 28 U.S.C. section 1407 with the Consolidated ERISA Action described above. On August 20, 2004, plaintiffs filed a notice of opposition to the conditional transfer order with the Judicial Panel. On December 6, 2004, the Judicial Panel denied the opposition and ordered the action transferred to the U.S. District Court for the Middle District of Tennessee for coordinated or consolidated proceedings with the Consolidated ERISA Action described above. On January 3, 2005, this action was received in the U.S. District Court for the Middle District of Tennessee and consolidated with the Consolidated ERISA Action described above.

On December 21, 2005, an application was filed in the Ontario Superior Court of Justice for leave to commence a shareholders' derivative action on Nortel' s behalf against certain current and former officers and directors, of Nortel alleging, among other things, breach of fiduciary duties, breach of duty of care and negligence, and unjust enrichment in respect of various alleged acts and omissions including causing or permitting Nortel to issue alleged materially false and misleading statements regarding expected growth in revenues and earnings for 2000 and 2001 and endorsing or permitting accounting practices relating to provisions not in compliance with GAAP. The proposed derivative action would seek on Nortel' s behalf, among other things, compensatory damages of Canadian $1,000 and punitive damages of Canadian $10 from the individual defendants (the "Proposed Ontario Derivative Action"). The Proposed Ontario Derivative Action would also seek an order directing Nortel' s Board of Directors to reform and improve Nortel' s corporate governance and internal control procedures as the Court may deem necessary or desirable and an order that Nortel pay the legal fees and other costs in connection with the Proposed Ontario Derivative Action. The application for leave to commence the Proposed Ontario Derivative Action has not yet been heard. However, in response to a motion brought by the applicants to preserve potential claims against the possible expiration of potential limitation periods, Nortel consented to an order, entered February 14, 2006, permitting the applicants to file and have issued by the Court, on an interim basis and pending final determination of the application, the Proposed Ontario Derivative Action without prejudice to Nortel' s position on the merits of the application itself. The order provides that no further steps shall be taken against the individual defendants in the Proposed Ontario Derivative Action unless the application is granted and if the application is denied the Proposed Ontario Derivative Action is to be discontinued.

Except as otherwise described herein, in each of the matters described above, the plaintiffs are seeking an unspecified amount of monetary damages. Nortel is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact to Nortel of the above matters, which, unless otherwise specified, seek damages from the defendants of material or indeterminate amounts or could result in fines and penalties. With the exception of $2,474 and the related fair value adjustments, which Nortel has recorded in its 2005 and first half 2006 financial results, respectively, as a result of the Proposed Class Action Settlement, Nortel has not made any provisions for any potential judgments, fines, penalties or settlements that may result from these actions, suits, claims and investigations. Nortel cannot determine whether these actions, suits, claims and proceedings will, individually or collectively, have a material adverse effect on the business, results of operations, financial condition or liquidity of Nortel. Except for matters encompassed by the Proposed Class Action Settlement, Nortel intends to defend these actions, suits, claims and proceedings, litigating or settling cases where in management' s judgement it would be in the best interest of shareholders to do so. Nortel will continue to cooperate fully with all authorities in connection with the regulatory and criminal investigations.

Nortel is also a defendant in various other suits, claims, proceedings and investigations which arise in the normal course of business.

Environmental matters

Nortel' s operations are subject to a wide range of environmental laws in various jurisdictions around the world. Nortel seeks to operate its business in compliance with such laws. Nortel is subject to new European product content laws and product takeback and recycling requirements that will require full compliance commencing in July 2006. As a result of these laws and requirements, Nortel will incur additional compliance costs. Although costs relating to environmental matters have not resulted in a material adverse effect on the business, results of operations, financial condition or liquidity in the past, there can be no assurance that Nortel will not be required to incur such costs in the future. Nortel is actively working on compliance plans and risk mitigation strategies relating to the new laws and requirements. Although Nortel is working with its strategic suppliers in this regard, it is possible that some of Nortel' s products may not be compliant by the legislated compliance date. In such event, Nortel expects that it will have the ability to rely on available exemptions under the new legislation for most of such products and currently expects minimal disruption to the distribution of such products. Nortel intends to manufacture products that are compliant with all applicable legislation and meet its quality and reliability requirements.

Nortel has a corporate environmental management system standard and an environmental program to promote such compliance. Moreover, Nortel has a periodic, risk-based, integrated environment, health and safety audit program. Nortel' s environmental program focuses its activities on design for the environment, supply chain and packaging reduction issues. Nortel works with its suppliers and other external groups to encourage the sharing of non-proprietary information on environmental research.

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Nortel is exposed to liabilities and compliance costs arising from its past and current generation, management and disposal of hazardous substances and wastes. As of June 30, 2006, the accruals on the consolidated balance sheet for environmental matters were $29. Based on information available as of June 30, 2006, management believes that the existing accruals are sufficient to satisfy probable and reasonably estimable environmental liabilities related to known environmental matters. Any additional liabilities that may result from these matters, and any additional liabilities that may result in connection with other locations currently under investigation, are not expected to have a material adverse effect on the business, results of operations, financial condition and liquidity of Nortel.

Nortel has remedial activities under way at 14 sites which are either currently or previously owned or occupied facilities. An estimate of Nortel' s anticipated remediation costs associated with all such sites, to the extent probable and reasonably estimable, is included in the environmental accruals referred to above in an approximate amount of $29.

Nortel is also listed as a potentially responsible party under the U.S. Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") at four Superfund sites in the U.S. (at two of the Superfund sites, Nortel is considered a *de minimis* potentially responsible party). A potentially responsible party within the meaning of CERCLA is generally considered to be a major contributor to the total hazardous waste at a Superfund site (typically 10% or more, depending on the circumstances). A *de minimis* potentially responsible party is generally considered to have contributed less than 10% (depending on the circumstances) of the total hazardous waste at a Superfund site. An estimate of Nortel' s share of the anticipated remediation costs associated with such Superfund sites is expected to be *de minimis* and is included in the environmental accruals of $29 referred to above.

Liability under CERCLA may be imposed on a joint and several basis, without regard to the extent of Nortel' s involvement. In addition, the accuracy of Nortel' s estimate of environmental liability is affected by several uncertainties such as additional requirements which may be identified in connection with remedial activities, the complexity and evolution of environmental laws and regulations, and the identification of presently unknown remediation requirements. Consequently, Nortel' s liability could be greater than its current estimate.

19. Subsequent events

Senior notes offering

On July 5, 2006, Nortel' s principal operating subsidiary, NNL, completed an offering of $2,000 aggregate principal amount of senior notes (the "Notes") to qualified institutional buyers pursuant to Rule 144A and to persons outside the United States pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The Notes consist of $450 of senior notes due 2016 (the "2016 Fixed Rate Notes"), $550 of senior notes due 2013 (the "2013 Fixed Rate Notes") and $1,000 of floating rate senior notes due 2011 (the "Floating Rate Notes"). The 2016 Fixed Rate Notes bear interest semi-annually at a rate per annum of 10.75%, the 2013 Fixed Rate Notes bear interest semi-annually at a rate per annum of 10.125% and the Floating Rate Notes bear interest quarterly at a rate per annum, reset quarterly, equal to the reserve-adjusted LIBOR plus 4.25%. As of July 5, 2006, the Floating Rate Notes had an interest rate of 9.73%.

NNL may redeem all or a portion of the 2016 Fixed Rate Notes at any time on or after July 15, 2011 at specified redemption prices ranging from 100% to 105.375% of the principal amount thereof plus accrued and unpaid interest. In addition, NNL may redeem all or a portion of the 2013 Fixed Rate Notes at any time and, prior to July 15, 2011, all or a portion of the 2016 Fixed Rates Notes, at a price equal to 100% of the principal amount thereof plus a "make-whole" premium. Prior to July 15, 2009, NNL may also redeem up to 35% of the original aggregate principal amount of any series of Notes with proceeds of certain equity offerings at a redemption price equal to (i) in the case of the 2016 Fixed Rate Notes, 110.750% of the principal amount thereof, (ii) in the case of the 2013 Fixed Rate Notes, 110.125% of the principal amount thereof and (iii) in the case of the Floating Rate Notes, 100% of the principal amount so redeemed plus a premium equal to the interest rate per annum of such Floating Rate Notes applicable on the date of redemption, in each case, plus accrued and unpaid interest, if any; provided that in each case, NNL makes such redemption not more than 90 days after the receipt by Nortel or NNL of the proceeds of such equity offerings. In the event of certain changes in applicable withholding taxes, NNL may redeem the Notes of each series of Notes in whole, but not in part.

Upon a change of control, NNL is required within 30 days to make an offer to purchase the Notes then outstanding at a purchase price equal to 101% of the principal amount of the Notes plus accrued and unpaid interest. A "change of control" is defined in the indenture governing the notes (the "Note Indenture") as, among other things, the filing of a

NORTEL NETWORKS CORPORATION

Notes to Condensed Consolidated Financial Statements (unaudited) − (Continued)

Schedule 13D or Schedule TO under the Securities Exchange Act of 1934, as amended, by any person or group unaffiliated with Nortel disclosing that such person or group has become the beneficial owner of a majority of the voting stock of Nortel or has the power to elect a majority of the members of the Board of Directors of Nortel or Nortel ceases to be the beneficial owner of 100% of the voting power of the common stock of NNL.

In connection with the issuance of the Notes, Nortel, NNL and NNI entered into a registration rights agreement with the initial purchasers of the Notes and are obligated under that agreement to use their reasonable best efforts to file with the SEC, and cause to become effective, a registration statement relating to the exchange or resale of the Notes within certain time periods, failing which holders of the Notes will be entitled to payment of certain additional interest.

The Note Indenture and related guarantees contain various covenants that limit Nortel' s and NNL' s ability to create liens (other than certain permitted liens) against assets of Nortel, NNL and its restricted subsidiaries to secure funded debt in excess of certain permitted amounts without equally and ratably securing the Notes and to merge, consolidate and sell or otherwise dispose of substantially all of the assets of any of Nortel, NNL and, so long as NNI is a guarantor of the Notes, NNI unless the surviving entity or purchaser of such assets assumes the obligations of Nortel, NNL or NNI, as the case may be, under the Notes and related guarantees and no default exists under the indenture governing the Notes after giving effect to such merger, consolidation or sale.

In addition, the Note Indenture and related guarantees contain covenants that, at any time that the Notes do not have an investment grade rating, limit Nortel' s ability to incur, assume, issue or guarantee additional funded debt (including capital leases) and certain types of preferred stock, or repurchase, redeem, retire or pay any dividends in respect of any Nortel Networks Corporation stock or NNL preferred stock, in excess of certain permitted amounts or incur debt that is subordinated to any other debt of Nortel, NNL or NNI, without having that new debt be expressly subordinated to the Notes and the guarantees. At any time that the Notes do not have an investment grade rating, Nortel' s ability to incur additional indebtedness and pay dividends is tied to an Adjusted EBITDA to fixed charges ratio of at least 2.00 to 1.00, except that Nortel may incur certain debt and make certain restricted payments without regard to the ratio up to certain permitted amounts. Adjusted EBITDA is generally defined as consolidated earnings before interest, taxes, depreciation and amortization, adjusted for certain restructuring charges and other one-time charges and gains that will be excluded from the calculation of Adjusted EBITDA. "Fixed charges" is defined in the indenture governing the Notes as consolidated interest expense plus dividends paid on certain preferred stock.

Nortel has entered into interest rate swaps to convert the fixed interest rate payable on the 2016 Fixed Rate Notes and the 2013 Fixed Rate Notes to a floating rate based on LIBOR plus 4.9% and LIBOR plus 4.4%, respectively.

NNL used $1,300 of the net proceeds from the issuance of the Notes to repay the 2006 Credit Facility and expects to use the remainder for general corporate purposes, including to replenish recent cash outflows of $150 for the repayment at maturity of the outstanding aggregate principal amount of the 7.40% Notes due June 15, 2006 and $575, plus accrued interest, deposited into escrow on June 1, 2006 pursuant to the Proposed Class Action Settlement.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS − TABLE OF CONTENTS

MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this Management' s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, in combination with the accompanying unaudited condensed consolidated financial statements, or unaudited financial statements, prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

Certain statements in this MD&A contain words such as "could", "expects", "may", "anticipates", "believes", "intends", "estimates", "plans", "envisions", "seeks" and other similar language and are considered forward-looking statements or information under applicable securities laws. These statements are based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. These statements are subject to important assumptions, risks and uncertainties, which are difficult to predict and the actual outcome may be materially different. Although we believe expectations reflected in such forward-looking statements are reasonable based upon the assumptions in this MD&A, they may prove to be inaccurate and consequently our actual results could differ materially from our expectations set out in this MD&A. In particular, the risk factors described in the "Risk Factors" section of this report, our Annual Report on Form 10-K/ A for the year ended December 31, 2005, or 2005 10-K/ A, and our current report on Form 8-K dated June 16, 2006, or 2006 Form 8-K, or 2006 Form 8-K and 2005 10-K/ A together the 2005 Annual Report, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, or the 2006 First Quarter Report, could cause actual results or events to differ materially from those contemplated in forward-looking statements. Reference is also made to the "Cautionary Notice Regarding Forward Looking Information" below. Unless required by applicable securities laws, we disclaim any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Where we say "we", "us", "our", "NNC", or "Nortel", we mean Nortel Networks Corporation or Nortel Networks Corporation and its subsidiaries, as applicable, and where we refer to the "industry", we mean the telecommunications industry. All dollar amounts in this MD&A are in millions of United States, or U.S., dollars unless otherwise stated. Certain 2005 amounts are presented on a restated basis as described under "Restatements; Material Weaknesses; Related Matters − Third Restatement", and reclassified to conform to our new segments unless otherwise stated. Restated amounts presented herein are consistent with those disclosed in our 2005 Annual Report.

The common shares of Nortel Networks Corporation are publicly traded on the New York Stock Exchange, or NYSE, and Toronto Stock Exchange, or TSX, under the symbol "NT". Nortel Networks Limited, or NNL, is our principal direct operating subsidiary and its results are consolidated into our results. Nortel holds all of NNL' s outstanding common shares but none of its outstanding preferred shares. NNL' s preferred shares are reported in minority interests in subsidiary companies in the unaudited condensed consolidated balance sheets, and dividends and the related taxes are reported in minority interests − net of tax in the unaudited condensed consolidated statements of operations.

Business Overview

Our Business

Nortel is a global supplier of communication equipment serving both service provider and enterprise customers. We deliver products and solutions that help simplify networks, improve productivity as well as drive value creation and efficiency for consumers. Our technologies span access and core networks, support multimedia and business-critical applications, and help eliminate today' s barriers to efficiency, speed and performance by simplifying networks and connecting people with information. Our networking solutions consist of hardware, software and services. Our business activities include the design, development, assembly, marketing, sale, licensing, installation, servicing and support of these networking solutions.

Our Segments

During 2005, our operations were organized into four reportable segments: Carrier Packet Networks, Code Division Multiple Access, or CDMA, Networks, Global System for Mobile communications, or GSM, and Universal Mobile Telecommunications Systems, or UMTS, Networks and Enterprise Networks. We have modified our organizational structure to reflect two product groups: (i) Enterprise Solutions and Packet Networks, which combines optical networking solutions, data networking and security solutions and portions of circuit and packet voice solutions into a unified product

group; and (ii) Mobility and Converged Core Networks, which combines our CDMA solutions and GSM and UMTS solutions and other circuit and packet voice solutions.

These organizational changes resulted in a change to our reportable segments. Commencing in the first quarter of 2006, Mobility and Converged Core Networks, or MCCN, and Enterprise Solutions and Packets Networks, or ESPN, form our reportable segments and are described below:

MCCN provides mobility networking solutions using CDMA solutions, GSM and UMTS solutions and carrier circuit and packet voice solutions. Mobility networking refers to communications networks that enable end-users to be mobile while they send and receive voice and data communications using wireless devices, such as cellular telephones, personal digital assistants and other computing and communications devices. These networks use specialized network access equipment and specialized core networking equipment that enable an end-user to be connected and identified when not in a fixed location. In addition, our carrier circuit and packet voice solutions provide a broad range of voice solutions to our service provider customers in this segment, including local, toll, long-distance and international gateway capabilities using either circuit or packet-based switching technologies. Our service provider customers include local and long distance telephone companies, wireless service providers, cable operators and other communication service providers. ESPN provides enterprise circuit and packet voice solutions, data networking and security solutions and optical networking solutions. Our solutions for enterprises are used to build new networks by customers who want to transform their existing communications networks into more cost effective, packet-based networks supporting data, voice and multimedia communications. Our optical and data networking solutions efficiently transform our enterprise and carrier customers' networks to be more scaleable and reliable for the high speed delivery of diverse multi-media communications services.

How We Measure Performance

Our president and chief executive officer, or CEO, has been identified as our chief operating decision maker in assessing the performance and allocating resources to our operating segments. The primary financial measure used by the CEO is management earnings (loss) before income taxes, or Management EBT. This measure includes the cost of revenues, selling, general and administrative, or SG&A, expense, research and development expense, or R&D, expense, interest expense, other income (expense) − net, minority interests − net of tax and equity in net earnings (loss) of associated companies − net of tax. Interest attributable to long-term debt is not allocated to a reportable segment and is included in "Other". The CEO does not review asset information on a segmented basis in order to assess performance and allocate resources.

Our Strategy

We continue to drive our business forward with a renewed focus on execution and operational excellence through (i) the transformation of our businesses and processes, (ii) integrity renewal and (iii) growth imperatives.

Our plan for business transformation is expected to address our biggest operational challenges and is focused on simplifying our organizational structure, reflecting the alignment of carrier and enterprise networks, and maintains a strong focus on revenue generation as well as quality improvements and cost reduction through a program known as Six Sigma. This program contemplates the transformation of our business in six key areas: services, procurement effectiveness, revenue stimulation (including sales and pricing), R&D effectiveness, general and administrative effectiveness, and organizational and workforce effectiveness. Employees throughout our organization are engaged in supporting various objectives in each of these areas.

We remain focused on integrity renewal through a commitment to effective corporate governance practices, remediation of our material weaknesses in our internal controls and ethical conduct. We have enhanced our compliance function to more effectively comply with applicable laws, regulations and company policies and to increase employee awareness of our code of ethical business conduct.

Our long-term growth imperatives are motivated by a desire to generate profitable growth and focus on areas where we can attain a leadership position and a minimum market share of twenty percent in key technologies. Some areas in which we plan to increase our investment include products compliant with the Worldwide Interoperability for Microwave Access, or WiMAX, standard and the IP Multimedia Subsystem, or IMS, architecture. We cannot predict when or if significant revenues from these areas will materialize and expect to continue to derive a substantial portion of our revenues from our current networking solutions.

On May 16, 2006, we announced a new business initiative to drive market share in the growing video bandwidth market, or Metro Ethernet Networks. Metro Ethernet Networks will combine our networking optical solutions and the carrier portion of our data networking and security solutions currently included in our ESPN segment, which are designed to deliver innovative Ethernet portfolios with high quality, reliability and security. We expect this new business initiative to become a reportable segment in the second half of 2006.

We are also in the process of establishing an operating segment that focuses on providing professional services in five key areas: integration services, security services, managed services, optimization services and maintenance services, which are currently components of all of our networking solutions and reportable segments. We expect this operating segment to become a reportable segment in the second half of 2006.

Recent key strategic and business initiatives include the continued progress of our finance transformation project, which will implement, among other things, a new information technology platform to provide an integrated global financial system; establishing a greater presence in Asia through our joint venture with LG Electronics, Inc., or LG; strengthening our end-to-end convergence solutions and focus on the enterprise market, including with the acquisition of Tasman Networks Inc., or Tasman Networks; entry into an alliance with Microsoft Corp., or Microsoft, to facilitate the ongoing transition of a key component of our business from traditional voice technology into software; and evolving our supply chain strategy.

We also have recently determined that our UMTS solutions and GSM solutions businesses will start operating as separate business units within our MCCN portfolio as the second generation GSM and third generation UMTS technologies are at two very different market stages. We also intend to decide whether to expand, partner, or divest our UMTS solutions business.

Developments in 2006

Consolidated Results Summary

Summary of selected financial data:

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2006	% of Revenues	June 30, 2005	% of Revenues	June 30, 2006	% of Revenues	June 30, 2005	% of Revenues
Revenues	$2,744		$2,619		$5,126		$5,008	
Gross profit	1,066	38.8	1,134	43.3	1,974	38.5	2,146	42.9
Operating expenses								
Selling, general and administrative expense	596	21.7	588	22.5	1,191	23.2	1,166	23.3
Research and development expense	489	17.8	488	18.6	967	18.9	962	19.2
Special charges	45	1.6	92	3.5	50	1.0	106	2.1
Gain (loss) on sale of businesses and assets	(10)	(0.4)	(11)	(0.4)	25	0.5	(33)	(0.7)
Shareholder litigation settlement recovery	510	18.6	–	–	491	9.6	–	–
Operating earnings (loss)	414	15.1	(47)	(1.8)	255	5.0	(125)	(2.5)
Other income – net	51	1.9	74	2.8	120	2.3	128	2.6
Interest expense	70	2.6	52	2.0	140	2.7	105	2.1
Income tax benefit (expense)	(27)	(1.0)	9	0.3	(50)	(1.0)	(7)	(0.1)
Net earnings (loss) from continuing operations	366	13.3	(32)	(1.2)	190	3.7	(138)	(2.8)
Net earnings (loss)	$366	13.3	$(33)	(1.3)	$199	3.9	$(137)	(2.7)

Our revenues increased 4.8 percent in the second quarter of 2006 compared to the second quarter of 2005 and increased 2.4 percent in the first half of 2006 compared to the first half of 2005. In the second quarter of 2006, MCCN revenues were $1,591, an increase of 7.2 percent compared to the second quarter of 2005, and ESPN revenues were $1,068, a decrease of 0.6 percent compared to the second quarter of 2005. In the first half of 2006, MCCN revenues were $3,017, an increase of 1.6 percent compared to the first half of 2005, and ESPN revenues were $1,939, a decrease of 0.7 percent compared to the first half of 2005. Revenues from the acquisition of Nortel Government Solutions Incorporated, or NGS, and the LG-Nortel joint venture represented 4 and 4 percentage points of our growth in the second quarter and first half

of 2006, respectively. For further information related to the changes in revenue by segment, see "Results of Operations − Continuing Operations − Segment Information".

Our gross margin decreased by 4.5 percentage points to 38.8 percent in the second quarter of 2006 compared to the second quarter of 2005 and decreased by 4.4 percentage points to 38.5 percent in the first half of 2006 compared to the first half of 2005. Overall, gross margins decreased in both the MCCN and ESPN segments as a result of competitive pricing pressures and unfavorable geographic and product mixes, partially offset by improvements in our cost structure as a result of lower materials pricing.

During the second quarter of 2006, SG&A expense as a percentage of revenues decreased by 0.8 percentage points to 21.7 percent compared to 22.5 percent in the second quarter of 2005. During the first half of 2006, SG&A expense decreased by 0.1 percentage points to 23.2 percent of revenue compared to 23.3 percent in the first half of 2005. SG&A spending in the first half of 2006 compared to the first half of 2005 increased slightly due to higher costs related to our acquisition of NGS and the LG-Nortel joint venture, unfavorable foreign exchange impacts and increased costs as a result of our business transformation initiatives, internal control remedial measures and investment in our finance processes, partially offset by lower bonus accruals, lower restatement costs and cost containment initiatives in the first half of 2006 compared to the first half of 2005.

R&D expense as a percentage of revenues decreased by 0.8 percentage points to 17.8 percent in the second quarter of 2006 compared to 18.6 percent in the second quarter of 2005 and decreased by 0.3 percentage points to 18.9 percent in the first half of 2006 compared to 19.2 percent in the first half of 2005. R&D spending has remained relatively flat primarily due to increased investment costs related to the LG-Nortel joint venture, and unfavorable foreign exchange impacts, substantially offset by savings associated with our restructuring plan announced in 2004, or the 2004 Restructuring Plan.

Special charges as a percentage of revenue decreased by 1.9 percentage points to 1.6 percent in the second quarter of 2006 compared to 3.5 percent in the second quarter of 2005 and decreased by 1.1 percentage points to 1.0 percent in the first half of 2006 compared to 2.1 percent in the first half of 2005 primarily due to the substantial completion of the 2004 Restructuring Plan in the first half of 2005, partially offset by charges of $43 associated with the restructuring plan announced on June 27, 2006, or the 2006 Restructuring Plan.

For further information related to the changes in operating expenses, see "Results of Operations − Continuing Operations − Operating Expenses".

Shareholder litigation settlement recovery of $510 was recorded during the second quarter of 2006 and $491 during the first half of 2006 as a result of a fair value mark-to-market adjustment as of June 30, 2006 of the equity component of an agreement in principle reached for the settlement of certain shareholder class action litigation. For additional information, see "Developments in 2006 − Significant Business Developments − Global Class Action Settlement".

Significant Business Developments

Credit Facility and Senior Notes

On February 14, 2006, our indirect subsidiary, Nortel Networks Inc., or NNI, entered into a new one-year credit facility in the aggregate principal amount of $1,300, or the 2006 Credit Facility. The 2006 Credit Facility was drawn down in the full amount on February 14, 2006, and we used the net proceeds primarily to repay at maturity the outstanding $1,275 aggregate principal amount of NNL' s 6.125% Notes on February 15, 2006.

On July 5, 2006, NNL completed an offering of $2,000 aggregate principal amount of Senior Notes, or the Notes, to qualified institutional buyers pursuant to Rule 144A and to persons outside the United States pursuant to Regulation S under the U.S. Securities Act of 1933, as amended, or the Securities Act. The Notes consist of $450 of Senior Notes due 2016, or the 2016 Fixed Rate Notes, $550 of Senior Notes due 2013, or the 2013 Fixed Rate Notes, and $1,000 of Floating Rate Senior Notes due 2011, or the Floating Rate Notes. The 2016 Fixed Rate Notes pay interest semi-annually at a rate per annum of 10.75%, the 2013 Fixed Rate Notes pay interest semi-annually at a rate per annum of 10.125% and the Floating Rate Notes pay interest quarterly at a rate per annum, reset quarterly, equal to the reserve-adjusted London Interbank Offered Rate, or LIBOR, plus 4.25%. As of July 5, 2006, the Floating Rate Notes had an interest rate of 9.73% per annum. Although these Notes are subject to certain covenants as described under "Liquidity and Capital Resources − Future Sources of Liquidity", we believe the Notes and their longer maturities provide sufficient financial flexibility to execute our business strategy.

Following the issuance of the Notes, we entered into interest rate swaps to convert our fixed interest rate exposure under the Notes to a floating rate equal to LIBOR plus 4.4% for the 2013 Fixed Rate Notes and LIBOR plus 4.9% for the

2016 Fixed Rate Notes. We have entered into interest rate swaps in order to offset floating rate assets and floating rate liabilities and minimize income statement volatility related to interest rates on our indebtedness. The Notes are fully and unconditionally guaranteed by Nortel and initially guaranteed by NNI.

NNL used $1,300 of the net proceeds from the offering of the Notes to repay the 2006 Credit Facility, and expects to use the remainder for general corporate purposes, including to replenish recent cash outflows of $150 for the repayment at maturity of the outstanding aggregate principal amount of the 7.40% Notes due June 15, 2006 and $575, plus accrued interest of $5, deposited into escrow on June 1, 2006 pursuant to the Global Class Action Settlement (as described below).

For more information on the 2006 Credit Facility and the Notes, see "Liquidity and Capital Resources − Credit Facility and Senior Notes" and the "Risk Factors" section of this report.

2006 Restructuring and Pension Plan Changes

On June 27, 2006, in connection with our previously announced Business Transformation plan to increase competitiveness by improving operating margins and overall business performance, we announced significant changes to our North American pension programs and the 2006 Restructuring Plan which resulted in a series of new initiatives to create a world-class operations organization and planned actions to achieve organizational simplification. These initiatives are expected to result in a reduction of approximately 1,900 positions globally and the creation of approximately 800 new positions in Operations Centers of Excellence. In connection with the 2006 Restructuring Plan, we recorded a charge of $43 in the second quarter of 2006. The expected charges and cash cost of $100 of the restructuring are expected to be incurred over a two-year period. See "Results of Operations − Continuing Operations − Operating Expenses − Special Charges".

Global Class Action Settlement

On February 8, 2006, we announced an agreement in principle to settle two significant class action lawsuits pending in the U.S. District Court for the Southern District of New York, or the Global Class Action Settlement, which is described in our 2005 Annual Report. The Global Class Action Settlement contains no admission of wrongdoing by us or any of the other defendants. As a result of the Global Class Action Settlement, we established a litigation provision and recorded a charge to our full-year 2005 financial results of $2,474 (net of insurance proceeds of $228.5 which were placed in escrow in April 2006). Of this amount, $575 related to the cash portion, which was placed in escrow on June 1, 2006 together with accrued interest of $5 pending satisfactory completion of all conditions to the Global Class Action Settlement and $1,899 related to the equity component which requires the issuance of 628,667,750 of Nortel Networks Corporation common shares (representing 14.5% of our equity as of February 7, 2006). We adjusted the equity component in the first and second quarters of 2006 and will further adjust it in future quarters based on the fair value of the Nortel Networks Corporation common shares issuable until the finalization of the settlement. As of June 30, 2006, the fair value of the equity component decreased to $1,408, resulting in a shareholder litigation settlement recovery of $510 for the second quarter of 2006.

On June 21, 2006, we announced that we entered into stipulations and agreements of settlement with the lead plaintiffs and an agreement with the plaintiffs in the Canadian actions with respect to the Global Class Action Settlement. The appropriate courts in the U.S. and Canada have now appointed a claims administrator and authorized the mailing of notices of the Global Class Action Settlement, which occurred on July 21, 2006, and the publication of summary notices, which occurred on July 28, 2006, which include details of how to participate in the settlement. The settlement remains conditioned, among other things, on receipt of all required court, securities regulatory and stock exchange approvals.

The Global Class Action Settlement and the litigation provision taken in connection with the settlement do not relate to ongoing regulatory and criminal investigations and do not encompass a related Employment Retirement Income Security Act, or ERISA, class action or the pending application in Canada for leave to commence a derivative action against certain of our current and former officers and directors, and the previously reported proposed Ontario shareholder class action against Nortel and certain current and former directors and certain former officers in respect of the payment of cash bonuses to executives, officers and employees in 2003 and 2004 under the Nortel Networks Return to Profitability bonus program.

For additional information, see the "Risk Factors" section of this report and "Contingencies" in note 18 of the accompanying unaudited financial statements.

Acquisitions

On February 24, 2006, we acquired 100% of the common and preferred shares of Tasman Networks, an established networking company that provides a portfolio of secure enterprise routers, for approximately $99 in cash and related liabilities. The preliminary purchase price allocation of $99 included approximately $43 of goodwill acquired, $58 of intangible assets acquired and $2 in net liabilities assumed. We recorded an expense of $16 for in-process research and development in the second quarter of 2006. The allocation of the purchase price is based on management' s current best estimate of the relative values of the assets acquired and liabilities assumed in Tasman Networks.

Evolution of Our Supply Chain Strategy

On May 8, 2006, we completed the transfer to Flextronics International Ltd., or Flextronics, our manufacturing operations and related assets in Calgary, Canada including product integration, testing, repair and logistics operations, representing the final transfer of substantially all of our remaining manufacturing operations to Flextronics. The completion of the agreement with Flextronics resulted in the transfer of approximately 2,100 employees to Flextronics. We expect gross cash proceeds of approximately $600, of which approximately $520 has been received to date, partially offset by cash outflows incurred to date and expected to be incurred in 2006 attributable to direct transaction costs and other costs associated with the transaction.

For additional information related to the Flextronics divestiture, see "Liquidity and Capital Resources" and "Acquisitions, divestitures and closures" in note 9 of the accompanying unaudited financial statements.

Microsoft Alliance

On July 18, 2006, we and Microsoft announced a strategic alliance to accelerate the transformation of business communications towards a shared vision for unified communications. The agreement engages the companies at the technology, marketing and business levels and includes joint product development, solutions and systems integration, and go-to-market initiatives.

Restatements; Material Weaknesses; Related Matters

First and Second Restatements, Independent Review and Revenue Independent Review

We have effected successive restatements of prior period financial results. In December 2003, we restated our consolidated financial statements for the years ended December 31, 2002, 2001 and 2000 and for the quarters ended March 31, 2003 and June 30, 2003, or the First Restatement. Following an independent review of the facts and circumstances leading to the First Restatement, or the Independent Review, we restated our financial statements for the years ended December 31, 2002 and 2001 and the quarters ended March 31, 2003 and 2002, June 30, 2003 and 2002 and September 30, 2003 and 2002, or the Second Restatement. Management identified certain accounting practices and errors related to revenue recognition that it determined required adjustment as part of the Second Restatement. The Audit Committee determined to review the facts and circumstances leading to the restatement of these revenues for specific transactions identified in the Second Restatement, with a particular emphasis on the underlying conduct, or the Revenue Independent Review. For more information about the First and Second Restatements, see our Annual Report on Form 10-K for the year ended December 31, 2003, or the 2003 Annual Report.

In January 2005, the Audit Committee reported the findings of the Independent Review, together with its recommendations for governing principles for remedial measures, the summary of which is included in the "Controls and Procedures" section of the 2003 Annual Report. Each of our and NNL' s Board of Directors adopted these recommendations in their entirety and directed our management to implement those principles, through a series of remedial measures, across Nortel, to prevent any repetition of past misconduct and re-establish a finance organization with values of transparency, integrity, and sound financial reporting as its cornerstone. See the "Controls and Procedures" section of this report. In addition, the Revenue Independent Review was completed in April, 2006. For more information about the Revenue Independent Review, see our 2005 Annual Report and 2005 10-K/ A.

Material Weaknesses in Internal Control over Financial Reporting

Over the course of the Second Restatement process, we identified a number of reportable conditions, each constituting a material weakness (within the meaning of Public Company Accounting Oversight Board Auditing Standard No. 2), in our

internal control over financial reporting as of December 31, 2003. Five of those material weaknesses continued to exist as of December 31, 2005, as follows:

- lack of compliance with written Nortel procedures for monitoring and adjusting balances related to certain accruals and provisions, including restructuring charges and contract and customer accruals;
- lack of compliance with Nortel procedures for appropriately applying applicable GAAP to the initial recording of certain liabilities including those described in Statement of Financial Accounting Standards, or SFAS, No. 5, "Accounting for Contingencies", or SFAS No. 5, and to foreign currency translation as described in SFAS No. 52, "Foreign Currency Translation", or SFAS No. 52;
- lack of sufficient personnel with appropriate knowledge, experience and training in U.S. GAAP and lack of sufficient analysis and documentation of the application of U.S. GAAP to transactions, including but not limited to revenue transactions;
- lack of a clear organization and accountability structure within the accounting function, including insufficient review and supervision, combined with financial reporting systems that are not integrated and which require extensive manual interventions; and
- lack of sufficient awareness of, and timely and appropriate remediation of, internal control issues by Nortel personnel.

We have identified, developed and implemented remedial measures to strengthen our internal control over financial reporting and disclosure controls and procedures, and to address the material weaknesses in our internal control over financial reporting. For more information see the "Controls and Procedures" section of this report and "Risks Related to Our Restatements and Related Matters" in the "Risk Factors" section of this report and the 2006 First Quarter Report.

Third Restatement

As part of the remedial measures and to compensate for the unremedied material weaknesses in our internal control over financial reporting, we undertook intensive efforts in 2005 to enhance our controls and procedures relating to the recognition of revenue. These efforts included, among other measures, extensive documentation and review of customer contracts for revenue recognized in 2005 and earlier periods. As a result of the contract review, it became apparent that certain of the contracts had not been accounted for properly under U.S. GAAP. Most of these errors related to contractual arrangements involving multiple deliverables, for which revenue recognized in prior periods should have been deferred to later periods, under American Institute of Certified Public Accountants Statement of Position, or SOP, 97-2, "Software Revenue Recognition", and SEC Staff Accounting Bulletin, or SAB, 104, "Revenue Recognition", or SAB 104.

In addition, based on our review of our revenue recognition policies and discussions with our independent registered chartered accountants as part of the 2005 audit, we determined that in our previous application of these policies, we misinterpreted certain of these policies principally related to complex contractual arrangements with customers where multiple deliverables were accounted for using the percentage-of-completion method of accounting under SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", or SOP 81-1, as described in more detail below:

- Certain complex arrangements with multiple deliverables were previously fully accounted for under the percentage of completion method of SOP 81-1, but elements outside of the scope of SOP 81-1 should have been examined for separation under the guidance in Emerging Issues Task Force, or EITF, Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables"; and
- Certain complex arrangements accounted for under the percentage-of-completion method did not meet the criteria for this treatment in SOP 81-1 and should instead have been accounted for using completed contract accounting under SOP 81-1.

In correcting for both application errors, the timing of revenue recognition was frequently determined to be incorrect, with revenue having generally been recognized prematurely when it should have been deferred and recognized in later periods. Management' s determination that these errors required correction led to the Audit Committee' s decision on March 9, 2006 to effect a further restatement of our consolidated financial statements, or the Third Restatement, which was effected with the filing of our 2005 10-K/A and NNL' s 2005 10-K with the SEC. Following the announcement of the Third Restatement on March 10, 2006, the Audit Committee directed the Internal Audit group to conduct a review of the facts and circumstances surrounding the Third Restatement principally to review the underlying conduct of the initial recording of the errors and any overlap of items restated in the Third Restatement and the Second Restatement. Internal Audit engaged third party forensic accountants to assist in the review. The review was completed and Internal Audit reported its findings to the Audit Committee. For more information, see the 2006 First Quarter Report.

The following table presents a summary of the adjustments from the Third Restatement for the three and six months ended June 30, 2005:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Revenues − as previously reported	$2,855	$5,391
Adjustments:		
Application of SOP 81-1	(23)	59
Interaction between multiple revenue recognition accounting standards	(155)	(338)
Application of SAB 104 and SOP 97-2	(45)	(98)
Other revenue recognition adjustments	(13)	(6)
Revenues − as restated	$2,619	$5,008
Net earnings (loss) − as previously reported	$45	$(4)
Adjustments:		
Application of SOP 81-1	(12)	(3)
Interaction between multiple revenue recognition accounting standards	(12)	(38)
Application of SAB 104 and SOP 97-2	(25)	(51)
Other revenue recognition adjustments	(50)	(53)
(Gain) loss on sale of businesses	25	4
Foreign exchange(a)	11	13
Other	(15)	(5)
Net earnings (loss) − as restated	$(33)	$(137)

(a) Includes the foreign exchange gains and losses resulting from the Third Restatement adjustments, and the correction of certain foreign exchange errors.

For further information, see note 3 of the accompanying unaudited financial statements.

Third Restatement Impacts

As a result of the delayed filing of our 2005 10-K/A and NNL' s 2005 10-K and the 2006 First Quarter Reports with the SEC:

we and NNL were in breach of the continued listing requirements of the NYSE and TSX and were not in compliance with our obligations to deliver our respective SEC filings to the trustees under our and NNL' s public debt indentures. With the filing of the 2006 First Quarter Reports with the SEC and the delivery of the 2006 First Quarter Reports to the trustees under our and NNL' s public debt indentures, we and NNL became compliant with these delivery obligations;

we entered into an amendment and waiver with the lenders under the 2006 Credit Facility and with Export Development Canada, or EDC, under our $750 support facility, or the EDC Support Facility, which, among other things, waived the events of default that had occurred under the facilities;

as of March 10, 2006, we suspended the grant of any new equity and exercise or settlement of previously outstanding awards under certain equity and stock option compensation plans. Upon our becoming current with U.S. and Canadian regulatory securities filing requirements upon the filing of the 2006 First Quarter Reports, we lifted those suspensions;

Our Annual Shareholders' Meeting was postponed to June 29, 2006; and

the Ontario Securities Commission, or OSC, issued a final order on April 10, 2006 prohibiting all trading by our directors, officers and certain current and former employees in our and NNL' s securities, which was revoked upon us and NNL becoming current with our financial reporting obligations for the first quarter of 2006 under Ontario securities laws.

Regulatory Actions

We are under investigation by the SEC and the OSC Enforcement Staff. In addition, we received U.S. federal grand jury subpoenas for the production of certain documents sought in connection with an ongoing criminal investigation being conducted by the U.S. Attorney' s Office for the Northern District of Texas, Dallas Division. Further, the Integrated

Market Enforcement Team of the Royal Canadian Mounted Police, or RCMP, advised us that it would be commencing a criminal investigation into our financial accounting situation. Regulatory sanctions may potentially require us to agree to remedial undertakings that may involve the appointment of an independent adviser to review, assess and monitor our accounting practices, financial reporting and disclosure processes and internal control systems. We will continue to cooperate fully with all authorities in connection with these investigations and reviews.

For additional information, see "Liquidity and Capital Resources", the "Legal Proceedings" and "Risk Factors" sections of this report and "Contingencies" in note 18 of the accompanying unaudited financial statements.

Results of Operations − Continuing Operations

Consolidated Information

Revenues

Demand Trends for Our Network Solutions

The following table sets forth our external revenues by category of network solutions for each of our reportable segments:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
Mobility and Converged Core Networks								
CDMA solutions	$588	$620	$ (32)	(5)	$1,102	$1,154	$ (52)	(5)
GSM and UMTS solutions	723	565	158	28	1,356	1,278	78	6
Circuit and packet voice solutions	280	299	(19)	(6)	559	538	21	4
	1,591	1,484	107	7	3,017	2,970	47	2
Enterprise Solutions and Packet Networks								
Circuit and packet voice solutions	361	459	(98)	(21)	700	781	(81)	(10)
Optical networking solutions	326	304	22	7	576	541	35	6
Data networking and security solutions (a)	381	311	70	23	663	630	33	5
	1,068	1,074	(6)	(1)	1,939	1,952	(13)	(1)
Other(b)	85	61	24	39	170	86	84	98
Total	$2,744	$2,619	$ 125	5	$5,126	$5,008	$ 118	2

(a) Includes revenue from our enterprise customers of $186 and $194 for the three months ended June 30, 2006 and 2005, respectively, and $357 and $395 of revenue for the first half of 2006 and 2005, respectively.

(b) Other includes our revenues from NGS, which we acquired in June 2005, and various other network solutions and miscellaneous business activities and corporate functions.

The following discusses significant demand trends in the second quarter and first half of 2006 for our various network solutions, which impacted our consolidated revenues. We make reference to demand trends in developing and developed countries. Other than the United States and Canada, which we consider developed, each of our geographic regions encompass both developed and developing countries. Other factors also impacted our second quarter 2006 and first half 2005 revenues, and this discussion should be read together with the "Geographic Revenues" and "Segment Information" sections.

Mobility and Converged Core Networks

CDMA Solutions

In the second quarter and first half of 2006, revenues from our CDMA solutions (which decreased 5% over the second quarter and first half of 2005, respectively) were negatively impacted by reduced customer spending on our next-generation products and reduced volumes primarily in the U.S. and Canada. Revenues from CDMA solutions were

positively impacted by expansion to meet increased subscriber demand and the delivery of software upgrades in Europe, Middle East and Africa, or EMEA, and Asia.

GSM and UMTS Solutions

In the second quarter and first half of 2006, revenues from our GSM and UMTS solutions (which increased 28% and 6% over the second quarter and first half of 2005, respectively) were positively impacted by a significant increase in our UMTS solutions primarily due to recognition of previously deferred revenue due to a contract renegotiation in EMEA in the second quarter of 2006. Revenues from our UMTS solutions were also positively impacted by higher subscriber demand to support progressively more sophisticated communication services and continued transition to this next-generation technology, primarily in developed countries, except for the U.S.

Revenues from our GSM solutions decreased slightly in the second quarter of 2006 compared to the second quarter of 2005 and decreased in the first half of 2006 compared to 2005. GSM solutions were negatively impacted by decreased volume as a result of industry consolidation in the U.S. Revenues from our GSM solutions were positively impacted by greater infrastructure sales, particularly in developing countries, related to increasing subscriber demand.

Circuit and Packet Voice Solutions

In the second quarter of 2006 revenues from our carrier circuit and packet voice solutions (which decreased 6% compared to the second quarter of 2005) were positively impacted by growth in our circuit voice solutions. Revenues from our packet voice solutions were negatively impacted by decreases across all regions except for Asia.

In the first half of 2006, revenues from our carrier circuit and packet voice solutions (which increased 4% over the first half of 2005) were positively impacted by slight increases in both our circuit and packet voice solutions. Revenues from packet voice solutions were positively impacted by increased demand for next-generation packetized communications, including voice over IP, or VoIP. Demand for circuit and packet voice solutions varied across developed and developing countries.

Enterprise Solutions and Packet Networks

Circuit and Packet Voice Solutions

In the second quarter and first half of 2006, revenues from our enterprise circuit and packet voice solutions (which decreased 21% and 10% over the second quarter and first half of 2005, respectively) were negatively impacted by the recognition of previously deferred revenues related to a specific software upgrade in the second quarter of 2005 which was not repeated in 2006. Demand for circuit and packet voice solutions varied across developed and developing countries.

Optical Networking Solutions

In the second quarter and first half of 2006, revenues from our optical networking solutions (which increased 7% and 6% over the second quarter and first half of 2005, respectively) were positively impacted by increased demand for multimedia and other communications at broadband network speeds and the recognition of revenue due to the delivery of software upgrades in Asia. Revenues from our metro networking solutions were positively impacted by the delivery of “triple play” services (data, voice and multimedia) by a range of service providers, particularly in developed countries where these services are readily available. Revenues from our long-haul solutions were positively impacted primarily in developed countries where the focus is on maximizing return on invested capital by increasing the capacity utilization rates and efficiency of existing networks to meet fluctuation in subscriber demand.

Data Networking and Security Solutions

In the second quarter and first half of 2006, revenues from our data networking and security solutions (which increased 23% and 5% over the second quarter and first half of 2005, respectively) were positively impacted by demand for IP based services and related next generation routing solutions from our service provider customers, and the delivery of software upgrades in EMEA. Revenues from our data networking and security solutions were negatively impacted by reduced demand for our legacy routing solutions and a mature router access market. This demand varied across developed and developing countries depending on the rate of network upgrade and expansion.

Geographic Revenues

The following table summarizes our geographic revenues based on the location of the customer:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
United States	$1,114	$1,371	$(257)	(19)	$2,246	$2,590	$(344)	(13)
EMEA	894	666	228	34	1,525	1,339	186	14
Canada	139	168	(29)	(17)	298	280	18	6
Asia	449	284	165	58	750	548	202	37
CALA(a)	148	130	18	14	307	251	56	22
Consolidated	$2,744	$2,619	$125	5	$5,126	$5,008	$118	2

(a) Caribbean and Latin America, or CALA, region.

From a geographic perspective, revenues increased in the second quarter and first half of 2006 when compared to the second quarter and first half of 2005, primarily due to the following:

Q2 2006 vs. Q2 2005

19% decrease in revenues in the U.S. primarily due to significant declines in CDMA solutions, and substantial declines in enterprise circuit and packet voice solutions and GSM and UMTS solutions. These declines were partially offset by revenues related to our acquisition of NGS.

34% increase in revenues in EMEA primarily due to a substantial increase in GSM and UMTS solutions revenues as a result of the recognition of previously deferred revenues due to a contract renegotiation and substantial increases in CDMA solutions and data networking and security solutions as a result of revenue recognized on the delivery of software upgrades, partially offset by price erosion and shipment deferrals.

17% decrease in revenues in Canada primarily due to a substantial decline in CDMA revenues due to a decrease in volumes, and declines in our ESPN portfolio primarily related to reductions in data networking and security solutions and enterprise circuit and packet voice solutions.

58% increase in revenues in Asia due to substantial growth across most product portfolios including optical networking and GSM solutions which were positively impacted by the recognition of revenue previously deferred due to software deliveries and the impact of the consolidation of the LG-Nortel joint venture.

14% increase in revenues in CALA primarily due to substantial increases in GSM solutions and CDMA networking solutions due to new customer contracts and existing customer network expansion, partially offset by decreases in the ESPN portfolio due to volume decreases and local political and business events.

First half of 2006 vs. First half of 2005

13% decrease in revenues in the U.S. primarily due to substantial declines in GSM and UMTS solutions and enterprise circuit and packet voice solutions and a significant decline in CDMA solutions. These declines were partially offset by revenues related to our acquisition of NGS.

14% increase in revenues in EMEA primarily due to substantial increases in CDMA solutions and GSM and UMTS solutions as a result of the recognition of previously deferred revenue due to a contract renegotiation and increases in data networking and security solutions.

6% increase in revenues in Canada primarily due to a substantial increase in optical networking revenues primarily due to the negative impact of shipping delays on our optical networking solutions revenues in the first quarter of 2005 not repeated in the first quarter of 2006 and a substantial increase in our carrier circuit and packet voice solutions, partially offset by a significant decrease in CDMA revenues and a substantial decline in our data networking and security solutions.

37% increase in revenues in Asia due to substantial growth across most product portfolios including Optical and GSM solutions which were positively impacted by the recognition of revenue previously deferred due to software deliveries and the impact of the consolidation of the LG-Nortel joint venture.

22% increase in revenues in CALA was primarily due to a substantial increase in GSM solutions due to new contracts and existing customer expansion, partially offset by decreases in the ESPN portfolio due to volume decreases and local political and business events.

Gross Profit and Gross Margin

	For The Three Months Ended June 30,				For The Six Months Ended June 30,			
	2006	2005	Change	% Change	2006	2005	Change	% Change
Gross profit	$1,066	$1,134	$(68)	(6)	$1,974	$2,146	$(172)	(8)
Gross margin	38.8 %	43.3 %	(4.5pts)		38.5 %	42.9 %	(4.4pts)	

Gross profit decreased $68 and $172 (while gross margin decreased by approximately 4.5 and 4.4 percentage points) in the second quarter and first half of 2006 compared to the second quarter and first half of 2005, respectively, primarily due to:

a decrease of approximately $186 ($286 for the first half of 2006) primarily as a result of (i) pricing pressures due to increased competition; (ii) unfavorable product and geographic mixes associated with a greater proportion of our revenue earned outside of North America; and (iii) increased costs associated with European Union Environmental Directive compliance; and
a decrease of approximately $15 ($55 for the first half of 2006) primarily due to higher product and warranty costs and recoveries in inventory provisions due to sale of inventory in the first half of 2005 not repeated in the first half of 2006; partially offset by
an increase of approximately $85 ($80 for the first half of 2006) due to overall higher sales volumes;
an increase of approximately $20 ($26 for the first half of 2006) due to project losses related to the Bharat Sanchar Nigam Limited, or BSNL, contract in India that were incurred in 2005 not repeated in 2006;
an increase of approximately $13 ($13 for the first half of 2006) related to our employee bonus plans incurred in 2005 not repeated to the same extent in the first half of 2006; and
an increase of approximately $15 ($50 for the first half of 2006) due to continued improvements in our cost structure.

Operating Expenses

Selling, General and Administrative Expense

	For The Three Months Ended June 30,				For The Six Months Ended June 30,			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
SG&A expense	$596	$588	$8	1	$1,191	$1,166	$25	2
As % of revenues	21.7 %	22.5%	(0.8pts)		23.2 %	23.3 %	(0.1pts)	

SG&A expenses increased slightly in the second quarter of 2006, and decreased 0.8 percentage points as a percentage of revenues compared to the second quarter of 2005. SG&A expenses in the first half of 2006 increased by $25 and decreased by 0.1 percentage points as a percentage of revenues compared to the first half of 2005, primarily due to:

incremental costs of approximately $31 ($69 for the first half of 2006) related to our acquisition of NGS and the formation of the LG-Nortel joint venture;
higher costs of approximately $5 ($32 for the first half of 2006) related to our internal control remedial measures, investment in our finance processes and business transformation initiatives; and
unfavorable foreign exchange impacts primarily in the second quarter of 2006 associated with the strengthening of the Canadian dollar against the U.S. dollar; partially offset by
lower bonus accruals and cost containment initiatives; and
lower costs related to our restatement related activities.

For a discussion of our SG&A expense by segment, see “Management EBT” under “Segment Information”.

Research and Development Expense

	For The Three Months Ended June 30,				For The Six Months Ended June 30,			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
R&D expense	$489	$488	$1	0	$967	$962	$5	1
As % of revenues	17.8 %	18.6%	(0.8pts)		18.9 %	19.2%	(0.3pts)	

R&D expenses were flat in the second quarter of 2006 and decreased 0.8 percentage point as a percentage of revenues compared to the second quarter of 2005 and were flat in the first half of 2006 compared to the first half of 2005, primarily due to:

incremental costs of approximately $23 ($44 for the first half of 2006) related to our consolidation of the LG-Nortel joint venture;
unfavorable foreign exchange impacts associated with the strengthening of the Canadian dollar against the U.S. dollar; substantially offset by
cost savings associated with our 2004 Restructuring Plan and cost containment initiatives.

Special Charges

During the second quarter of 2006, in an effort to increase competitiveness by improving operating margins and overall business performance, we announced the 2006 Restructuring Plan, which includes a work plan involving workforce reductions of approximately 1,900 employees, as well as the creation of approximately 800 new positions in our Operations Centers of Excellence. The workforce reductions are expected to include approximately 350 middle management positions throughout the Company, with the balance of workforce reductions to primarily occur in the U.S. and Canada and span both of Nortel' s segments. We estimate total charges to earnings and cash associated with the 2006 Restructuring Plan will be approximately $100, to be expensed over fiscal 2006 and 2007. Approximately $43 of the 2006 Restructuring Plan charges were incurred in the first half of 2006, with the remainder expected to be incurred during the second half of 2006 and fiscal 2007.

In 2004 and 2005, our focus was on managing each of our businesses based on financial performance, market conditions and customer priorities. In the third quarter of 2004, we announced a strategic plan which includes a work plan involving focused workforce reductions, including a voluntary retirement program, of approximately 3,250 employees, real estate optimization and other cost containment actions such as reductions in information services costs, outsourced services and other discretionary spending across all segments or, the 2004 Restructuring Plan. We estimate total charges to earnings associated with the 2004 Restructuring Plan in the aggregate of approximately $410 comprised of approximately $240 with respect to the workforce reductions and approximately $170 with respect to the real estate actions. No additional special charges are expected to be recorded with respect to the other cost containment actions. Approximately $177 of the aggregate charges was incurred in 2005 and $7 in the first half of 2006, with the remainder expected to be substantially incurred during the second half of 2006.

We have incurred total cash costs related to the 2004 Restructuring Plan of approximately $360, which were split approximately $230 for workforce reductions and $130 for real estate actions. Approximately 10% and 50% of these cash costs were incurred in 2004 and 2005, respectively, and approximately 8% were incurred in the first half of 2006 and 7% are expected to be incurred during the balance of 2006. The remaining 25% of the cash costs relate to the real estate actions and are expected to be incurred through 2022 for ongoing lease costs related to impacted real estate facilities. We expect the real estate actions relating to the 2004 Restructuring Plan to be substantially complete by the end of 2006.

During 2001, we implemented a work plan to streamline operations and activities around core markets and leadership strategies in light of the significant downturn in both the telecommunications industry and the economic environment, and capital market trends impacting operations and expected future growth rates or, the 2001 Restructuring Plan. Under the 2001 Restructuring Plan activities were initiated in 2003 to exit certain leased facilities and leases for assets no longer used across all segments.

During the six months ended June 30, 2006, we continued to implement these restructuring work plans. Special charges provisions recorded from January 1, 2006 to June 30, 2006 were as follows:

	Workforce reduction	Contract settlement and lease costs	Plant and equipment write downs	Total
2006 Restructuring Plan				
Provision balance as of December 31, 2005[a]	$–	$–	$ –	$–
Other special charges	43	–	–	43
Revisions to prior accruals	–	–	–	–
Cash drawdowns	(3)	–	–	(3)
Non-cash drawdowns	–	–	–	–
Foreign exchange and other adjustments	–	–	–	–
Provision balance as of June 30, 2006	$40	$–	$ –	$40
2004 Restructuring Plan				
Provision balance as of December 31, 2005[a]	$21	$61	$ –	$82
Other special charges	–	–	–	–
Revisions to prior accruals	3	4	–	7
Cash drawdowns	(17)	(11)	–	(28)
Non-cash drawdowns	–	–	–	–
Foreign exchange and other adjustments	–	2	–	2
Provision balance as of June 30, 2006	$7	$56	$ –	$63
2001 Restructuring Plan				
Provision balance as of December 31, 2005[a]	$3	$213	$ –	$216
Other special charges	–	–	–	–
Revisions to prior accruals	1	(1)	–	–
Cash drawdowns	(1)	(32)	–	(33)
Non-cash drawdowns	–	–	–	–
Foreign exchange and other adjustments	(1)	4	–	3
Provision balance as of June 30, 2006	$2	$184	$ –	$186
Total provision balance as of June 30, 2006[a]	$49	$240	$ –	$289
Total special charges				

(a) As of June 30, 2006 and December 31, 2005, the short-term provision balance was $111 and $95, respectively, and the long-term provision balance was $178 and $203, respectively.

Under the 2004 Restructuring Plan, we recorded revisions to prior accruals of $1 and $7 during the three and six months ended June 30, 2006, respectively, and special charges of $89 and $114 (which included revisions to prior accruals of $(1) and $7), for the three and six months ended June 30, 2005, respectively. Under the 2001 Restructuring Plan, we recorded revisions to prior accruals of $1 and nil during the three and six months ended June 30, 2006, respectively, and $3 and $(8) for the three and six months ended June 30, 2005, respectively.

The following table outlines total special charges incurred by segment for each of the three and six months ended June 30:

	2006 Restructuring Plan		2004 Restructuring Plan		2001 Restructuring Plan	
	2006	2005	2006	2005	2006	2005
Special charges by segment:						
Mobility and Converged Core Networks						
Three months ended March 31	$–	$–	$3	$13	$–	$(1)
Three months ended June 30	27	–	1	60	–	3
Enterprise Solutions and Packet Networks						
Three months ended March 31	–	–	3	12	(1)	(10)
Three months ended June 30	16	–	–	29	1	–
Other						
Three months ended March 31	–	–	–	–	–	–
Three months ended June 30	–	–	–	–	–	–
Total special charges	$43	$–	$7	$114	$–	$(8)

For additional information related to our restructuring activities, see "Special charges" in note 6 of the accompanying unaudited financial statements.

(Gain) Loss on Sale of Businesses and Assets

(Gain) loss on sale of businesses and assets was a loss of $10 in the second quarter of 2006 and a gain of $25 in the first half of 2006 primarily due to costs related to the divestiture of our manufacturing operations to Flextronics in the second quarter of 2006, and gains of $19 related to the sale of certain assets and $18 related to the sale of our Brampton facility in the first quarter of 2006.

Loss on sale of businesses and assets was $11 in the second quarter of 2005 and $33 in the first half of 2005, primarily due to a loss of $35 on sale of businesses and assets related to the ongoing divestiture of substantially all of our remaining manufacturing operations to Flextronics.

For additional information relating to these asset sales, see "Acquisitions, divestitures and closures" in note 9 of the accompanying unaudited financial statements.

Shareholder Litigation Settlement Recovery

Shareholder litigation settlement recovery of $510 and $491 was recorded in the second quarter and first half of 2006, respectively, as a result of a fair value mark-to-market adjustment at quarter end of the equity component of the Global Class Action Settlement. For additional information, see "Developments in 2006 − Significant Business Developments − Global Class Action Settlement".

Other Income − Net

The components of other income − net were as follows:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
Interest income(a)	$ 19	$ 15	$35	$29
Gain (loss) on sale or write down of investments	2	21	1	16
Currency exchange gains(b)	16	19	26	47
Other − net	14	19	58	36
Other income − net	$ 51	$ 74	$120	$128

(a) Interest income on our short-term investments.

(b) Currency exchange gains were primarily related to day-to-day transactional activities.

In the second quarter of 2006, other income − net was $51, which (other than interest income and currency exchange gains detailed above) primarily included:

dividend income of $10 on our short-term investments; and
income of $6 related to the sub-lease of certain facilities; partially offset by
expenses of $13 related to the securitization of certain receivables.

In the first half of 2006, other income − net was $120, which (other than interest income and currency exchange gains detailed above) primarily included:

dividend income of $23 on our short-term investments;
a gain of $26 related to the sale of a note receivable from Bookham, Inc.; and
income of $10 related to the sub-lease of facilities; partially offset by
expenses of $13 from the securitization of certain receivables.

In the second quarter of 2005, other income − net was $74, which (other than interest income and currency exchange gains detailed above) included:

dividend income of $11 on our short-term investments;
gain of $21 related to the sale of our remaining Arris Group, Inc., or Arris Group, shares. For additional information on our investment in Arris Group, see “Acquisitions, divestitures and closures” in note 9 of the accompanying unaudited consolidated financial statements;
gain of $17 related to a customer exclusivity clause settlement; and
a gain of $6 related to the sub-lease of facilities; partially offset by
a loss of $9 from the sale of certain receivables.

In the first half of 2005, other income − net was $128, which (other than interest income and currency exchange gains detailed above) primarily included:

dividend income of $20 on our short-term investments;
gain of $21 related to the sale of our remaining Arris Group shares;
gain of $17 related to a customer exclusivity clause settlement;
a gain of $11 related to the sub-lease of certain facilities; and
gain of $10 on customer financing arrangements; partially offset by
loss of $12 from the sale of certain account receivables; and
loss of $5 related to changes in fair value of derivative financial instruments that did not meet the criteria for hedge accounting.

Interest Expense

Interest expense increased $18 and $35 in the second quarter and first half of 2006, respectively, compared to the second quarter and first half of 2005 primarily due to higher borrowing costs associated with 2006 Credit Facility and accrued interest on the Global Class Action Settlement.

Income Tax Benefit (Expense)

During the three and six months ended June 30, 2006, we recorded a tax expense of $27 and $50 on pre-tax earnings of $395 and $235 from continuing operations before minority interests and equity in net earnings (loss) of associated companies, respectively. The tax expense of $50 was primarily related to the drawdown of our deferred tax assets and current tax provision in certain taxable jurisdictions, including tax adjustments of $13 related to prior tax positions taken in the U.K., and various corporate minimum and other taxes, partially offset by the recognition of R&D related incentives.

During the three and six months ended June 30, 2005, we recorded a tax benefit of $9 and expense of $7 on a pre-tax loss of $25 and $102 from continuing operations before minority interests and equity in net earnings (loss) of associated companies, respectively. We recorded a tax expense against the earnings of certain taxable entities, partially offset by the tax benefit of certain R&D related incentives and favorable audit settlements, and we recorded additional valuation allowances against the tax benefit of current period losses of other entities

As of June 30, 2006, we have substantial loss carryforwards and valuation allowances in our significant tax jurisdictions. These loss carryforwards will serve to minimize our future cash income related taxes. We will continue to assess the valuation allowance recorded against our deferred tax assets on a quarterly basis. The valuation allowance is in accordance with SFAS No. 109, “Accounting for Income Taxes”, or SFAS 109 which requires that a tax valuation allowance be established when it is more likely than not that some portion or all of a company’ s deferred tax assets will not be realized. Given the magnitude of our valuation allowance, future adjustments to this valuation allowance based on actual results could result in a significant adjustment to our effective tax rate. For additional information, see “Application of Critical Accounting Policies and Estimates − Tax Asset Valuation.”

Segment Information

Management EBT is a measure that includes the cost of revenues, SG&A expense, R&D expense, interest expense, other income (expense) − net, minority interests - net of tax and equity in net earnings (loss) of associated companies − net of tax. Interest attributable to long-term debt has not been allocated to a reportable segment and is included in “Other”. “Other” represents miscellaneous business activities and corporate functions and includes the results of NGS. None of these activities meet the quantitative criteria to be disclosed separately as reportable segments. Costs associated with shared services and other corporate costs are allocated to the segments based on usage determined generally by headcount. Costs not allocated to the segments are primarily related to our corporate compliance and other non-operational activities and are included in “Other”. See “Segment information − General description” in note 5 of the accompanying unaudited financial statements.

The following tables set forth revenues and Management EBT of our reportable segments, "Other" and reconciliation to Net earnings (loss) from continuing operations:

	For The Three Months Ended June 30,				For The Six Months Ended June 30,			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
Revenues								
Mobility and Converged Core Networks	$1,591	$1,484	$ 107	7	$3,017	$2,970	$ 47	2
Enterprise Solutions and Packet Networks	1,068	1,074	(6)	(1)	1,939	1,952	(13)	(1)
Total reportable segments	2,659	2,558	101	4	4,956	4,922	34	1
Other	85	61	24	39	170	86	84	98
Total revenues	$2,744	$2,619	$ 125	5	$5,126	$5,008	$ 118	2
Management EBT								
Mobility and Converged Core Networks	$168	$177	$ (9)	(5)	$286	$367	$ (81)	(22)
Enterprise Solutions and Packet Networks	12	60	(48)	(80)	(37)	27	(64)	(237)
Total reportable segments	180	237	(57)	(24)	249	394	(145)	(37)
Other	(220)	(173)	(47)	(27)	(448)	(382)	(66)	(17)
Total management EBT	$(40)	$64	$ (104)	(163)	$(199)	$12	$ (211)	(1,758)
Amortization of intangibles	$(6)	$(2)	$ (4)	(200)	$(11)	$(4)	$ (7)	(175)
In-process research and development expense	(16)	–	(16)	–	(16)	–	(16)	–
Special charges	(45)	(92)	47	51	(50)	(106)	56	53
Gain (loss) on sale of businesses and assets	(10)	(11)	1	9	25	(33)	58	176
Shareholder litigation settlement recovery	510	–	510	–	491	–	491	–
Income tax benefit (expense)	(27)	9	(36)	(400)	(50)	(7)	(43)	(614)
Net earnings (loss) from continuing operations	$366	$(32)	$ 398	1,244	$190	$(138)	$ 328	238

The following table sets forth the positive (negative) contribution to segment Management EBT by each of its components relative to the comparable prior year period:

	For The Three Months Ended June 30, 2006					For The Six Months Ended June 30, 2006				
	Gross Profit	SG&A	R&D	Other items(a)	Total $ change	Gross Profit	SG&A	R&D	Other items(a)	Total $ change
Mobility and Converged Core Networks	$ 12	$ (9)	$ (2)	$(10)	**$(9)**	$ (81)	$ (9)	$ 1	$8	**$(81)**
Enterprise Solutions and Packet Networks	(59)	(13)	10	14	**(48)**	(83)	(5)	3	21	**(64)**
Total reportable segments	(47)	(22)	8	4	**(57)**	(164)	(14)	4	29	**(145)**
Other	(21)	14	(9)	(31)	**(47)**	(8)	(11)	(9)	(38)	**(66)**
Total change	$ (68)	$ (8)	$ (1)	$(27)	**$(104)**	$ (172)	$ (25)	$ (5)	$(9)	**$(211)**

(a) "Other items" is comprised of interest expense, other income (expense) − net, minority interests − net of tax and equity in net loss of associated companies − net of tax. Interest attributable to long-term debt has not been allocated to a reportable segment and is included in "Other".

The following discussion should be read together with "Consolidated Information − Revenues", which discusses certain demand trends for our networking solutions and geographical factors that impacted our revenues.

Mobility and Converged Core Networks

Revenues

The following chart summarizes recent quarterly revenues for MCCN:

Q2 2006 vs. Q2 2005

MCCN revenues increased 7% in the second quarter of 2006 compared to the same period in 2005, primarily due to substantially higher GSM and UMTS solutions, partially offset by declines in circuit and packet voice solutions, and CDMA solutions.

Revenues from GSM and UMTS solutions in this segment increased substantially in EMEA, Asia and CALA and decreased substantially in the U.S. Circuit and packet voice solutions declined substantially in EMEA, and significantly in the U.S. and increased substantially in Asia as a result of the recognition of previously deferred revenue. Revenues from CDMA solutions were substantially higher in EMEA, Asia and CALA and decreased substantially in Canada and significantly in the U.S.

First half of 2006 vs. first half of 2005

MCCN revenues increased 2% in the first half of 2006 compared to the same period in 2005, primarily due to higher GSM and UMTS solutions, and a slight increase in circuit and packet solutions, partially offset by a decline in CDMA solutions.

Revenues from GSM and UMTS solutions increased substantially in EMEA, Asia and CALA and decreased substantially in the U.S. Asia revenue was positively impacted by the recognition of previously deferred revenue. Circuit and packet voice solutions increased substantially in Asia and Canada, partially offset by substantial decrease in EMEA. Revenues from CDMA solutions decreased significantly in the U.S. and increased substantially in EMEA and Asia.

Management EBT

Q2 2006 vs. Q2 2005

Management EBT for the MCCN segment decreased by $9 in the second quarter of 2006 compared to the same period in 2005 primarily as a result of the items discussed below.

MCCN gross margin decreased by approximately 2.1 percentage points (while gross profit increased by $12) primarily due to unfavorable product mix associated with increased UMTS solutions revenue, penalty costs related to a contract in the U.S., and customer mix primarily due to decreased revenue in the U.S. These decreases were partially offset by continued improvements in our cost structure primarily as a result of lower material pricing.

MCCN SG&A expense increased by $9 primarily due to increased sales and marketing expenses as a result of the LG-Nortel joint venture. Other items expense increased $10 primarily due to minority interest as a result of the LG-Nortel joint venture.

MCCN R&D expense remained relatively flat primarily due to the continued impact of our workforce reductions that targeted a level of R&D expense that was more representative of the volume of our business and the negative impact of

foreign exchange, partially offset by investment in targeted next-generation wireless programs to increase the feature content in our portfolio solutions and increased expenses as a result of the LG-Nortel joint venture.

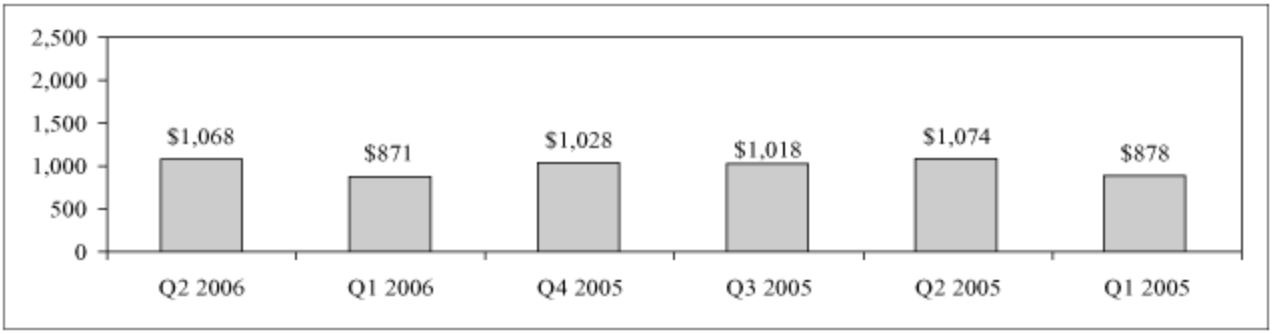
First half of 2006 vs. first half of 2005

MCCN Management EBT, gross margin, gross profit, SG&A expense, R&D expense and other items expense, decreased by $81, decreased by approximately 3.3 percentage points, decreased by $81, increased by $9, remained flat and decreased $8, respectively primarily due to the same factors discussed above.

Enterprise Solutions and Packet Networks

Revenues

The following chart summarizes recent quarterly revenues for ESPN:



Q2 2006 vs.Q2 2005

ESPN revenues decreased by approximately 1% in the second quarter of 2006 compared to the same period in 2005, primarily due to a substantial decrease in circuit and packet voice solutions substantially offset by increases in data networking and security solutions revenues and optical networking solutions.

Revenues from circuit and packet voice solutions decreased substantially in the U.S., Canada, and CALA and declined in EMEA. These decreases were partially offset by a substantial increase in Asia. Revenues from data networking and security solutions increased substantially in EMEA and Asia, decreased substantially in Canada and CALA and remained flat in the U.S. Revenues from our optical networking solutions increased substantially in Canada and Asia, decreased substantially in CALA and declined in the U.S. and EMEA.

First half of 2006 vs. first half of 2005

ESPN revenues decreased by approximately 1% in the first half of 2006 compared to the same period in 2005, primarily due to a significant decrease in circuit and packet voice solutions partially offset by increases in data networking and security solutions and optical networking solutions.

Revenues from circuit and packet voice solutions decreased substantially in the U.S. and CALA and declined in Canada and EMEA. These decreases were partially offset by a substantial increase in Asia. Revenues from data networking and security solutions increased substantially in Asia and improved in EMEA, partially offset by a substantial decrease in Canada, a significant decrease in CALA and a slight decrease in the U.S. Revenues from our optical networking solutions increased substantially in Canada, and improved in EMEA, partially offset by a decline in CALA and a slight decrease in Asia.

Management EBT

Q2 2006 vs. Q2 2005

Management EBT for the ESPN segment decreased by $48 in the second quarter of 2006 compared to the same period in 2005 primarily as a result of the items discussed below.

ESPN gross margin decreased by approximately 5.3 percentage points (while gross profit decreased by $59) primarily due to lower volumes and unfavorable product mix due to higher software revenue in the second quarter of 2005 compared to the second quarter of 2006. In addition, continued pricing pressures on data products, particularly in EMEA,

and increased product and warranty costs, and European Union compliance related costs contributed to the decreased margin. These decreases were partially offset by continued improvements in our cost structure.

ESPN SG&A expense increased by $13 primarily due to an increase resulting from the LG-Nortel joint venture, EMEA headcount spending and unfavorable foreign exchange impacts.

ESPN R&D expense decreased by $10 primarily due to the cancellation of certain programs; partially offset by the LG-Nortel joint venture and increased development in our voice portfolio.

ESPN other items expense decreased $14 primarily due to the completion of the LG-Nortel joint venture and increased royalty benefits.

First half of 2006 vs. first half 2005

Management EBT for the ESPN segment decreased by $64 in the first half of 2006 compared to the same period in 2005 primarily as a result of the items discussed below.

ESPN gross margin decreased by approximately 4.0 percentage points (while gross profit decreased by $83) primarily due to unfavorable product mix due to higher software revenue in the second quarter of 2005 compared to the second quarter of 2006, continued pricing pressures, particularly in EMEA, European Union compliance costs, and a recovery in inventory provisions in the first quarter of 2005 not repeated in the first quarter 2006. These decreases were partially offset by continued improvements in our cost structure.

ESPN SG&A expense increased by $5 which included increases in sales and marketing expenses primarily related to the LG-Nortel joint venture and partially offset by a decrease due to continued improvements in our cost structure and cost savings due to our workforce reduction under the 2004 Restructuring Plan.

ESPN R&D expense decreased by $3 primarily due to spending on R&D programs related to IP technologies and the LG-Nortel joint venture, partially offset by more effectively prioritizing investment in data products and net unfavorable foreign exchange impacts.

ESPN other items expense decreased by $21 primarily due to minority interest as a result of the LG-Nortel joint venture.

Other

Management EBT

Other Management EBT decreased by $47 and $66 in the second quarter and first half of 2006, respectively, compared to the same periods in 2005 primarily as a result of the items discussed below.

Q2 2006 vs. Q2 2005

Other segment SG&A expense decreased by $14 primarily due to an increase in sales and marketing expenses primarily related to our acquisition of NGS and costs associated with our business transformation initiatives, internal control remedial measures and investment in our finance process, partially offset by lower costs related to our restatement related activities.

Other segment R&D expense increased by $9 primarily due to unfavorable foreign exchange rate impacts associated with the strengthening of the Canadian dollar against the U.S. dollar and increases in employee related expenses, partially offset by savings associated with the 2004 Restructuring Plan.

Other segment other items expense increased by $31 primarily due to an increase in interest expense primarily due to securitization charges relating to BSNL receivables and higher borrowing costs and lower net foreign exchange transactional and translation gains, partially offset by a gain related to the sale of our note receivable from Bookham and gains related to changes in fair value of derivative financial instruments that do not meet the criteria for hedge accounting.

First half of 2006 vs. first half of 2005

Other segment SG&A expense, R&D expense and other expense increased by $11, $9 and $38, respectively primarily due to the same factors discussed above.

Liquidity and Capital Resources

Cash Flow

Cash and cash equivalents excluding restricted cash decreased $1,047 during the first half of 2006 to $1,904 as of June 30, 2006, primarily due to a payment of $580 into escrow on June 1, 2006 pursuant to the Global Class Action Settlement, cash payments of $98, net of cash acquired, relating to our acquisition of Tasman Networks, expenditures for plant and equipment of $177, and an outflow from operations of $282 which included cash payments for restructuring of $64, payments of approximately $162 for pension funding and $150 repayment of the 7.40% Notes due June 15, 2006, partially offset by cash proceeds of $87 relating to the sale of our Brampton facility and $111 relating to the sale of certain investments, including $70 received from Flextronics.

The following table summarizes our cash flows by activity and cash on hand as of June 30:

	For The Six Months Ended June 30,	
	2006	2005
Net cash from (used in) operating activities of continuing operations	$(282)	$(153)
Net cash from (used in) investing activities of continuing operations	(669)	(386)
Net cash from (used in) financing activities of continuing operations	(149)	(36)
Effect of foreign exchange rate changes on cash and cash equivalents	53	(85)
Net cash from (used in) continuing operations	(1,047)	(660)
Net cash from (used in) operating activities of discontinued operations	–	34
Net increase (decrease) in cash and cash equivalents	(1,047)	(626)
Cash and cash equivalents at beginning of period	2,951	3,685
Cash and cash equivalents at end of period	$1,904	$3,059

Operating activities

In recent years, our operating results have produced negative cash flow from operations due in large part to our inability to reduce operating expenses as a percentage of revenue and the continued negative impact on gross margin due to competitive pressures, product mix and other factors discussed throughout our MD&A. In addition, we have made significant payments related to our restructuring programs and pension plans.

In the first half of 2006, our cash flows used in operating activities were $282 due to net income of $199, less adjustments of $664 related to the net change in our operating assets and liabilities plus net adjustments of $183 for non-cash and other items.

In the first half of 2006, the primary adjustments to our net earnings for non-cash and other items were shareholder litigation settlement recovery of $491 and gain on sale of businesses and assets of $26, partially offset by amortization and depreciation of $136, in process research and development expense of $16, stock option expense of $53, foreign exchange impacts on long-term assets and liabilities and other items of $291, other liabilities of $159 and deferred income taxes of $54.

In the first half of 2005, our cash outflows in operating activities were $153 due to a net loss from continuing operations of $138, less $344 related to the change in our operating assets and liabilities, plus adjustments of $329 for non-cash and other items.

In the first half of 2005, the primary adjustments to our net loss from continuing operations for non-cash and other items were amortization and depreciation of $160, substantially all of which was depreciation, and stock option expense of $36, other liabilities of $181, deferred income taxes of $12, loss on sale of businesses and assets of $17 and other adjustments of $2 partially offset by foreign exchange impacts on long-term assets and liabilities of $79.

Changes in Operating Assets and Liabilities

In the first half of 2006, the use of cash of $664 relating to the net change in our operating assets and liabilities was primarily due to restructuring outflows of $64, pension funding of approximately $162, a $180 decrease in cash flows associated with our working capital performance as discussed further below under “Working capital metrics”, income

tax payments of $52 primarily due to an increase in taxable income in certain jurisdictions, and a decrease of $206 from other changes in operating assets and liabilities primarily due to deferred costs and other assets, partially offset by an increase in deferred revenue.

In the first half of 2005, the use of cash of $344 relating to the change in our operating assets and liabilities was primarily due to a $4 reduction in cash flows associated with our accounts receivable, inventory and accounts payable, $191 relating to restructuring outflows, $99 for pension funding and $29 relating to income taxes payments primarily due to an increase in income in certain taxable jurisdictions and other changes in operating assets and liabilities partially offset by $74 relating to the collection of long-term or customer financing receivables and $95 relating to the other changes in operating assets and liabilities.

We expect to pay $575, plus accrued interest in cash related to the Global Class Action Settlement. The cash amount bears interest commencing March 23, 2006 at a prescribed rate, was placed in escrow on June 1, 2006 pending satisfactory completion of all conditions to the Global Class Action Settlement and has been classified in restricted cash and cash equivalents. On March 17, 2006, we announced that we and the lead plaintiffs reached an agreement on the related insurance and corporate governance matters including our insurers agreeing to pay $228.5 in cash towards the settlement and us agreeing with our insurers to certain indemnification obligations. We believe that these indemnification obligations would be unlikely to materially increase our total cash payment obligations under the Global Class Action Settlement. On April 3, 2006, the insurance proceeds were placed into escrow by the insurers. The insurance payments would not reduce the amounts payable by us. For more information, see “Developments in 2006 − Significant Business Developments − Global Class Action Settlement”.

We expect cash contributions for pension, post retirement and post employment funding for the 12 months commencing June 30, 2006, to be approximately $455, including a portion related to increased pension funding in the United Kingdom. In addition, we expect cash outflows for the 12 months commencing June 30, 2006, of approximately $100 related to our 2006 Restructuring Plan, 2004 Restructuring Plan and 2001 Restructuring Plan. For the 12 months commencing June 30, 2006, we expect to generate minimal cash from the sale of customer financing receivables.

Working capital metrics

Working capital for each segment is primarily managed by our regional finance organization which manages accounts receivable performance and by our global operations organization which manages inventory and accounts payable.

	Q2 2006	Q4 2005
Days sales outstanding in accounts receivable	91	86
Net inventory days	148	132
Days of purchases outstanding in accounts payable	56	58

Days sales outstanding in accounts receivables, or DSO, measures the average number of days our accounts receivables are outstanding. DSO is a metric that approximates the measure of the average number of days from when we recognize revenue until we collect cash from our customers. DSO for each quarter is calculated by dividing the quarter end accounts receivable-net balance by revenues for the quarter, in each case as determined in accordance with U.S. GAAP, and multiplying by 90 days.

DSO increased by approximately 5 days as of June 30, 2006 compared to December 31, 2005, primarily due to revenue deferrals and an increase in notes receivable related to the transfer of our Calgary manufacturing operation to Flextronics, without a corresponding increase in revenue. These increases were partially offset by the impact of continued focus on improving our collections process; however, we expect to experience fluctuations in collections performance in individual quarters.

Net inventory days, or NID, is a metric that approximates the average number of days from procurement to sale of our product. NID for each quarter is calculated by dividing the average of the current quarter and prior quarter inventories − net by the cost of revenues for the quarter, in each case as determined in accordance with U.S. GAAP, and multiplying by 90 days. Finished goods inventory includes certain direct and incremental costs associated with arrangements where title and risk of loss was transferred to the customer but revenue was deferred due to other revenue recognition criteria not being met. As of June 30, 2006 and December 31, 2005, these deferred costs totaled $2,153 and $2,014, respectively.

NID increased by approximately 16 days as of June 30, 2006 compared to December 31, 2005, primarily due to higher inventory levels associated with deferred revenue, and higher cost of sales in the fourth quarter of 2005. As of June 30, 2006 and December 31, 2005, the NID without deferred costs associated with deferred revenues was 34 days and 36 days, respectively. This improvement is due to the reduction in inventory from the Calgary facility transfer to

Flextronics. In 2006, we expect that NID will fluctuate from quarter to quarter as future cost of sales and inventory levels fluctuate due in part to the movement in the deferred costs associated with deferred revenues.

Days of purchases outstanding in accounts payable, or DPO, is a metric that approximates the average number of days from when we receive purchased goods and services until we pay our suppliers. DPO for each quarter is calculated by dividing the quarter end trade and other accounts payable by the cost of revenues for the quarter, in each case, as determined in accordance with U.S. GAAP, and multiplying by 90 days.

DPO decreased by approximately 2 days as of June 30, 2006 compared to December 31, 2005 primarily due to the one-time impact on our accounts payable balance of the divestiture of our Calgary manufacturing operations to Flextronics.

Investing activities

In the first half of 2006, cash flows used in investing activities were $669 and were primarily due to an increase in restricted cash and cash equivalents of $567, primarily related to the Global Class Action Settlement, $125 for acquisitions of investments and businesses, net of cash acquired, including $98 related to our acquisition of Tasman Networks, and $177 for the purchase of plant and equipment, which were partially offset by proceeds of $89 primarily related to the sale of our Brampton facility, and $111 related to the proceeds on sale of certain investments and businesses which we no longer consider strategic, including $70 related to the transfer of certain manufacturing assets to Flextronics.

In the first half of 2005, cash flows used in investing activities were $386 and were primarily due to proceeds of $167 from the sale of certain investments and businesses which we no longer considered strategic, including $139 related to the transfer of certain manufacturing assets to Flextronics and other adjustments of $19. These amounts were partially offset by $124 in plant and equipment expenditures and $448 associated primarily with the acquisition of NGS.

Financing activities

In the first half of 2006, cash flows used in financing activities were $149 and were primarily from cash proceeds of $1,300 relating to our draw down under the 2006 Credit Facility, which was primarily used to repay the $1,425 relating to the aggregate principal amount of notes payable on February 15, 2006 and June 15, 2006, net proceeds from other notes payable and other adjustments of $15, partially offset by dividends of $31 primarily paid by NNL related to its outstanding preferred shares and repayment of our capital leases of approximately $9.

In the first half of 2005, cash flows used in financing activities were $36 and were primarily due to dividends of $24 primarily paid by NNL related to its outstanding preferred shares, a net reduction of our notes payable by net of $8 and capital leases and other adjustments of $4.

In the first half of 2006, our cash increased by $53 compared to a decrease of $85 in the first half of 2005 due to favorable effects of changes in foreign exchange rates primarily of the Euro and the British pound against the U.S. dollar.

In the first half of 2005, our discontinued operations generated net cash of $34 related to the continued wind-down of our discontinued operations.

Credit Facility and Senior Notes

On February 14, 2006, NNI entered into the 2006 Credit Facility which was drawn down in the full amount on February 14, 2006 and we used the net proceeds primarily to repay the outstanding $1,275 aggregate principal amount of NNL' s 6.125% Notes on February 15, 2006. For more detail of the 2006 Credit Facility, see note 10 of the accompanying unaudited financial statements.

On July 5, 2006, NNL completed an offering of the Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to persons outside the United States pursuant to Regulation S under the Securities Act. The Notes consist of $450 of Senior Notes due 2016, $550 of Senior Notes due 2013, and $1,000 of Floating Rate Senior Notes due in 2011. The 2016 Fixed Rate Notes bear interest of 10.75% and will pay interest on a semi-annual basis. The 2013 Fixed Rate Notes bear an annual interest rate of 10.125% and will pay interest on a semi-annual basis. The Floating Rate Notes will pay interest quarterly at a rate per annum, reset quarterly, equal to the reserve-adjusted LIBOR, plus 4.25%. Following the issuance of the Notes, we entered into interest rate swaps to convert our fixed interest rate exposure under the Notes to a floating rate equal to LIBOR plus 4.625%. See the "Quantitative and Qualitative Disclosures About Market Risk" section of this report. The Notes are fully and unconditionally guaranteed by Nortel and initially guaranteed by NNI. We have entered into interest rate swaps in order to offset floating rate assets and floating rate liabilities and minimize income statement volatility related to interest rates on our indebtedness.

NNL may redeem all or a portion of the 2016 Fixed Rate Notes at any time on or after July 15, 2011 at specified redemption prices ranging from 100% to 105.375% plus accrued and unpaid interest. In addition, NNL may redeem all or a portion of the 2013 Fixed Rate Notes at any time and, prior to July 15, 2011, all or a portion of the 2016 Fixed Rates Notes, at a price equal to 100% of the principal amount thereof plus a "make-whole" premium. Prior to July 15, 2009, NNL may also redeem up to 35% of the original aggregate principal amount of any series of Notes with proceeds of certain equity offerings at a redemption price equal to (i) in the case of the 2016 Fixed Rate Notes, 110.750% of the principal amount so redeemed, (ii) in the case of the 2013 Fixed Rate Notes, 110.125% of the principal amount so redeemed and (iii) in the case of the Floating Rate Notes, 100% of the principal amount so redeemed plus a premium equal to the interest rate per annum of such Floating Rate Notes applicable on the date of redemption, in each case, plus accrued and unpaid interest, if any. In addition, in the event of certain changes in applicable withholding taxes, NNL may redeem the Notes of each series of Notes in whole, but not in part.

The indenture governing the Notes and related guarantees contain various covenants that limit our ability to create liens (other than certain permitted liens) against assets of NNC and its restricted subsidiaries to secure funded debt in excess of certain permitted amounts without equally and ratably securing the Notes and to merge, consolidate and sell or otherwise dispose of substantially all of the assets of any of NNC, NNL and, so long as NNI is a guarantor of the Notes, NNI, unless the surviving entity or purchaser of such assets assumes the obligations of NNC, NNL or NNI, as the case may be, under the Notes and related guarantees and no default exists under the indenture governing the Notes after giving effect to such merger, consolidation or sale.

In addition, the indenture governing the Notes and related guarantees contain covenants that, at any time that the Notes do not have an investment grade rating, limit our ability to incur, assume, issue or guarantee additional funded debt (including capital leases) and certain types of preferred stock, or repurchase, redeem, retire or pay any dividends in respect of any Nortel Networks Corporation stock or NNL preferred stock, in excess of certain permitted amounts or incur debt that is subordinated to any other debt of NNC, NNL or NNI, without having that new debt be expressly subordinated to the Notes and the guarantees. At any time that the Notes do not have an investment grade rating, our ability to incur additional indebtedness and pay dividends is tied to an Adjusted EBITDA to fixed charges ratio. Adjusted EBITDA is generally defined as consolidated earnings before interest, taxes, depreciation and amortization, adjusted for certain restructuring charges and other one-time charges and gains that will be excluded from the calculation of Adjusted EBITDA. "Fixed charges" is defined in the indenture governing the Notes as consolidated interest expense plus dividends paid on certain preferred stock. Pursuant to certain significant exceptions and "carve-outs" contained in the covenants in the indenture governing the Notes, we may incur certain debt and make certain restricted payments without regard to the Adjusted EBITDA to fixed charges ratio up to certain permitted amounts. We believe that these exceptions and carve-outs currently provide us with sufficient flexibility to incur additional indebtedness, if we chose to do so, in order to operate our business.

Upon a change of control, NNL is required within 30 days to make an offer to purchase the Notes then outstanding at a purchase price equal to 101% plus accrued and unpaid interest. A "change of control" is defined in the indenture governing the notes as, among other things, the filing of a Schedule 13D or Schedule TO under the Securities Exchange Act of 1934, as amended, by any person or group unaffiliated with Nortel disclosing that such person or group has become the beneficial owner of a majority of the voting stock of Nortel Networks Corporation or has the power to elect a majority of the members of the Board of Directors of Nortel or it ceases to be the beneficial owner of 100% of the voting power of the common stock of NNL.

For additional information, see note 19, "Subsequent events" in the accompanying unaudited financial statements.

Future Uses and Sources of Liquidity

The forward-looking statements below are subject to important risks, uncertainties and assumptions, which are difficult to predict and the actual outcome may be materially different from that anticipated. See the "Risk Factors" section in this report.

Future Uses of Liquidity

Our cash requirements for the 12 months commencing June 30, 2006, are primarily expected to consist of funding for operations, including our investments in R&D, and the following items:

- costs in relation to restatement related and remedial measure activities, regulatory and other legal proceedings, including the $575, plus accrued interest cash payment payable by NNC related to the Global Class Action Settlement. The cash amount bears interest commencing March 23, 2006 at a prescribed rate and was placed in escrow on June 1, 2006 pending satisfactory completion of all conditions to the Global Class Action Settlement;

pension and post-retirement and post-employment benefit funding of approximately $455;
capital expenditures of approximately $300;
costs related to workforce reduction and other restructuring activities of approximately $100; and
costs related to our finance transformation project which will include, among other things, implementing SAP to provide an integrated global financial system.

Also, from time to time, we may purchase our outstanding debt securities and/or convertible notes in privately negotiated or open market transactions, by tender offer or otherwise, in compliance with applicable laws and may enter into acquisition or joint ventures as opportunities arise.

Contractual cash obligations

During 2006, we fulfilled a $232 purchase commitment which existed at December 31, 2005. On February 14, 2006, NNI entered into the 2006 Credit Facility which was drawn down in full to repay at maturity the outstanding $1,275 aggregate principal amount of NNL' s 6.125% Notes of February 15, 2006. On July 5, 2006, NNL completed the Notes offering and repaid the 2006 Credit Facility. For further information related to the 2006 Credit Facility and the Notes see "Developments in 2006 − Significant Business Developments − Credit Facility and Senior Notes" and note 10 of the accompanying unaudited financial statements.

Our contractual cash obligations for operating leases, obligations under special charges, pension and post-retirement obligations and other long-term liabilities reflected on the balance sheet remained substantially unchanged as of June 30, 2006 from the amounts disclosed as of December 31, 2005 in our 2005 Annual Report.

Customer financing

Generally, customer financing arrangements may include financing with deferred payment terms in connection with the sale of our products and services, as well as funding for non-product costs associated with network installation and integration of our products and services. We may also provide from time to time funding to our customers for working capital purposes and equity financing. There have been no significant changes to our customer financing commitments during the first half of 2006.

Future Sources of Liquidity

As of June 30, 2006, our primary source of liquidity was cash and we expect this to continue throughout the next 12 months. In addition, over the next 12 months, we expect the collection of cash due from Flextronics as a result of the transfer of certain manufacturing assets completed during the first half of 2006 to be a source of cash. We believe our cash will be sufficient to fund the changes to our business model in accordance with our strategic plan (see "Business Overview − Our Strategy"), fund our investments and meet our customer commitments for at least the 12 month period commencing June 30, 2006, including the cash expenditures outlined in our future uses of liquidity. Our ability to generate sustainable cash from operations will be dependent on our ability to generate profitable revenue streams and reduce our operating expenses. If capital spending by our customers changes or pricing and margins change from what we currently expect, our revenues and cash flows may be materially lower and we may be required to further reduce our investments or take other measures in order to meet our cash requirements. In making this statement, we have not assumed the need to make any payments in respect of fines or other penalties or judgments or settlements in connection with our pending civil litigation not encompassed by the Global Class Action Settlement or regulatory or criminal investigations related to the restatements, which could have a material adverse effect on our business, results of operations, financial condition and liquidity, other than anticipated professional fees and expenses.

The Global Class Action Settlement, if approved and all other conditions are satisfied, will have a material impact on our liquidity as a result of the $575, plus accrued interest cash payment. The cash amount bears interest commencing March 23, 2006 at a prescribed rate and has been placed in escrow on June 1, 2006 pending satisfactory completion of all conditions to the Global Class Action Settlement. Amounts placed in escrow are included in restricted cash and cash equivalents. We also expect that the issuance of 628,667,750 Nortel Networks Corporation common shares (which represented 14.5% of our equity as of February 7, 2006) will result in a significant dilution of existing shareholder equity positions and may adversely affect our ability to finance using equity and equity related securities in the future. In the event of a share consolidation of Nortel Networks Corporation common shares, the number of Nortel Networks Corporation common shares to be issued pursuant to the Global Class Action Settlement would be adjusted accordingly. The Global Class Action Settlement is subject to several conditions. In addition, we continue to be subject to significant regulatory and criminal investigations which could materially adversely affect our business, results of operations,

financial condition and liquidity by requiring us to pay substantial fines or other penalties or settlements or by limiting our access to capital market transactions.

Our ability and willingness to access the capital markets is based on many factors including market conditions and our overall financial objectives. Currently, our ability is limited by our and NNL' s credit ratings, the Third Restatement and related matters. We cannot provide any assurance that our net cash requirements will be as we currently expect, that we will continue to have access to the EDC Support Facility when and as needed or that we will be able to refinance any maturing debt as it comes due or that financings will be available to us on acceptable terms, or at all. See the "Risk Factors" section of this report.

We expect to receive the remainder of the estimated gross proceeds of approximately $600 from the Flextronics transaction in 2006, which is expected to be partially offset by cash outflows attributable to direct transaction costs and other costs associated with the transaction. See "Developments in 2006 − Significant Business Developments − Evolution of Our Supply Chain Strategy".

Available support facility

On February 14, 2003, NNL entered into the EDC Support Facility. As of June 30, 2006, the facility provided for up to $750 in support including:

- $300 of committed revolving support for performance bonds or similar instruments, of which $147 was outstanding; and
- $450 of uncommitted support for performance bonds or similar instruments and/or receivables sales and/or securitizations, of which $46 was outstanding.

The EDC Support Facility provides that EDC may suspend its obligation to issue NNL any additional support if events occur that would have a material adverse effect on NNL' s business, financial position or results of operation. The EDC Support Facility does not materially restrict NNL' s ability to sell any of its assets (subject to certain maximum amounts) or to purchase or pre-pay any of its currently outstanding debt. In addition, the EDC Support Facility can be suspended or terminated if NNL' s senior long-term debt rating by Moody' s Investors Service, or Moody' s, has been downgraded to less than B3 or if its debt rating by Standard & Poor' s, or S&P, has been downgraded to less than B-.

EDC has also agreed to provide future support under the EDC Support Facility on an unsecured basis and without the guarantees of NNL' s subsidiaries provided that should NNL or its subsidiaries incur or guarantee certain indebtedness in the future above agreed thresholds of $25 in North America and $100 outside of North America, equal and ratable security and/or guarantees of NNL' s obligations under the EDC Support Facility would be required at that time.

Effective February 14, 2006, NNL' s obligations under the EDC Support Facility became equally and ratably secured with the 2006 Credit Facility and the 2023 Bonds by a pledge of substantially all of the U.S. and Canadian assets of NNC and NNL and the U.S. assets of NNI and equally and ratably secured with the 2006 Credit Facility by a pledge of substantially all of NNC' s U.S. and Canadian assets in accordance with the terms of the EDC Support Facility. NNL' s obligations under the EDC Support Facility also were guaranteed by NNC and NNI at such time. These guarantees and security agreements terminated on July 5, 2006 with the repayment of the 2006 Credit Facility. In connection with the $2,000 Notes offering discussed above, NNL, NNI and EDC entered into a new guarantee agreement dated July 4, 2006 by which NNI agreed to guarantee NNL' s obligations under the EDC Support Facility during such time that such senior notes are guaranteed by NNI.

As described above under "Third Restatement Impacts − Credit and Support Facilities", we entered into an amendment and waiver agreement with respect to certain breaches under the EDC Support Facility relating to the delayed filings and the restatements and revisions to our and NNL' s prior financial results.

For information related to our outstanding public debt, see "Long-term debt, credit and support facilities" in note 10 of the accompanying unaudited financial statements. For information related to our debt ratings, see "Credit Ratings" below. See the "Risk Factors" section of this report for factors that may affect our ability to comply with covenants and conditions in our EDC Support Facility in the future.

Shelf registration statement and base shelf prospectus

In 2002, we and NNL filed a shelf registration statement with the SEC and a base shelf prospectus with the applicable securities regulatory authorities in Canada, to qualify the potential sale of up to $2,500 of various types of securities in the U.S. and/or Canada. The qualifying securities include common shares, preferred shares, debt securities, warrants to purchase equity or debt securities, share purchase contracts and share purchase or equity units (subject to certain

approvals). As of June 30, 2006, approximately $1,700 under the shelf registration statement and base shelf prospectus had been utilized. As of June 6, 2004, the Canadian base shelf prospectus expired. As a result of the delayed filing of our Exchange Act reports with the SEC due to the multiple restatements and revisions to our and NNL' s prior financial results, we and NNL continue to be unable to use, in its current form as a short-form shelf registration statement, the remaining approximately $800 of capacity for various types of securities under our SEC shelf registration statement. We will again become eligible for short-form shelf registration with the SEC after we have completed timely filings of our financial reports for twelve consecutive months. See the "Risk Factors" section in this report.

Credit Ratings

Rating agency	Rating on long-term debt issued or guaranteed by Nortel Networks Limited/ Nortel Networks Corporation	Rating on preferred shares issued by Nortel Networks Limited	Last update
Standard & Poor' s Ratings Service	B-	CCC-	June 16, 2006
Moody' s Investors Service, Inc.	B3	Caa3	June 16, 2006

On June 16, 2006, S&P revised its rating on NNL from credit watch with negative implications. At the same time S&P affirmed its B- long-term credit rating and assigned its B- senior unsecured debt rating to the Notes with an outlook of stable. On June 16, 2006, Moody' s affirmed the B3 Corporate Family Rating on Nortel and assigned a B3 rating to the Notes issue and revised the outlook from negative to stable. There can be no assurance that our credit ratings will not be lowered or that these ratings agencies will not issue adverse commentaries, potentially resulting in higher financing costs and reduced access to capital markets or alternative financing arrangements. A reduction in our credit ratings may also affect our ability, and the cost, to securitize receivables, obtain bid, performance related and other bonds, access the EDC Support Facility and/or enter into normal course derivative or hedging transactions.

Off-Balance Sheet Arrangements

Bid, Performance Related and Other Bonds

We have entered into bid, performance related and other bonds in connection with various contracts. Bid bonds generally have a term of less than twelve months, depending on the length of the bid period for the applicable contract. Performance related and other bonds generally have a term of twelve months and are typically renewed, as required, over the term of the applicable contract. The various contracts to which these bonds apply generally have terms ranging from two to five years. Any potential payments which might become due under these bonds would be related to our non-performance under the applicable contract. Historically, we have not had to make material payments and we do not anticipate that we will be required to make material payments under these types of bonds.

The following table provides information related to these types of bonds as of:

	June 30, 2006	December 31, 2005
Bid and performance related bonds(a)	$242	$222
Other bonds(b)	40	44
Total bid, performance related and other bonds	$282	$266

(a) Net of restricted cash and cash equivalents amounts of $25 and $36 as of June 30, 2006 and December 31, 2005, respectively.

(b) Net of restricted cash and cash equivalents amounts of $614 and $31 as of June 30, 2006 and December 31, 2005, respectively.

The criteria under which bid, performance related and other bonds can be obtained changed due to the industry environment primarily in 2002 and 2001. During that timeframe, in addition to the payment of higher fees, we experienced significant cash collateral requirements in connection with obtaining new bid, performance related and other bonds. Given that the EDC Support Facility is used to support bid and performance bonds with varying terms, including those with at least 365 day terms, we will likely need to increase our use of cash collateral to support these obligations beginning on January 1, 2007 absent a further extension of the facility.

Any bid or performance related bonds with terms that extend beyond December 31, 2007 are currently not eligible for the support provided by this facility. See "Liquidity and Capital Resources − Future Sources of Liquidity − Available support facility" for additional information on the EDC Support Facility and the related security agreements.

Receivables Securitization and Certain Variable Interest Transactions

Certain of our lease financing transactions were structured through single transaction variable interest entities, or VIEs, that did not have sufficient equity at risk as defined in the Financial Accounting Standards Board, or FASB, Interpretation, or FIN No. 46, "Consolidation of Variable Interest Entities − an Interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", or FIN 46, and in FIN 46 − FIN 46 (Revised 2003), or FIN 46R. VIEs are characterized as entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Reporting entities which have a variable interest in such an entity and are deemed to be the primary beneficiary must consolidate the variable interest entity. Effective July 1, 2003, we prospectively began consolidating two VIEs for which we were considered the primary beneficiary following the guidance of FIN 46, on the basis that we retained certain risks associated with guaranteeing recovery of the unamortized principal balance of the VIEs' debt, which represented the majority of the risks associated with the respective VIEs' activities. The amount of the guarantees will be adjusted over time as the underlying debt matures. During 2005, the debt related to one of the VIEs was extinguished and as a result consolidation of this VIE was no longer required. As of June 30, 2006, our consolidated balance sheet included $86 of long-term debt and $86 of plant and equipment − net related to these VIEs. These amounts represented both the collateral and maximum exposure to loss as a result of our involvement with these VIEs.

On June 3, 2005, we acquired NGS, a VIE for which we were considered the primary beneficiary under FIN 46R. Our consolidated financial results include NGS' s operating results from the date of the acquisition.

On November 2, 2005, we formed LG-Nortel, which is a VIE. We are considered the primary beneficiary under FIN 46R. No creditor of the entity has recourse to us. This entity' s financial results have been consolidated from the date of formation.

We consolidate certain assets and liabilities held in an employee benefit trust in Canada, a VIE for which we were considered the primary beneficiary under FIN 46R.

As of June 30, 2006, none of our other interests or arrangements were considered significant variable interests and, therefore, they did not meet the requirements for disclosure under FIN 46R.

We have also conducted certain receivable sales transactions either directly with financial institutions or with multi-seller conduits. As of June 30, 2006, we were not required to, and did not, consolidate or provide any of the additional disclosures set out in FIN 46R with respect to the variable interest entities involving receivable sales.

Additionally, we have agreed to indemnify some of our counterparties in certain receivables securitization transactions. These receivables securitization transactions include indemnifications requiring the repurchase of the receivables if the particular transaction becomes invalid. As of June 30, 2006, we had approximately $284 of securitized receivables which were subject to repurchase under this provision, in which case we would assume all rights to collect such receivables. Historically, we have not made any significant indemnification payments or receivable repurchases under these agreements and no significant liability has been accrued in the accompanying unaudited financial statements with respect to the obligation associated with these indemnities.

Application of Critical Accounting Policies and Estimates

Our accompanying unaudited financial statements are based on the selection and application of accounting policies generally accepted in the U.S., which require us to make significant estimates and assumptions. We believe that the following accounting policies and estimates may involve a higher degree of judgment and complexity in their application and represent our critical accounting policies and estimates: revenue recognition, provisions for doubtful accounts, provisions for inventory, provisions for product warranties, income taxes, goodwill valuation, pension and post-retirement benefits, special charges and other contingencies.

In general, any changes in estimates or assumptions relating to revenue recognition, provisions for doubtful accounts, provisions for inventory and other contingencies (excluding legal contingencies) are directly reflected in the results of our reportable operating segments. Changes in estimates or assumptions pertaining to our tax asset valuations, our pension and post-retirement benefits and our legal contingencies are generally not reflected in our reportable operating segments, but are reflected on a consolidated basis.

We have discussed the application of these critical accounting policies and estimates with the Audit Committee of our Board of Directors.

We have not identified any changes to the nature of our critical accounting policies and estimates as described in our 2005 Annual Report other than the material changes in the recorded balances and other updates noted below. For further information related to our critical accounting policies and estimates, see our 2005 Annual Report.

Provisions for Doubtful Accounts

In establishing the appropriate provisions for trade, notes and long-term receivables due from customers, we make assumptions with respect to their future collectibility. Our assumptions are based on an individual assessment of a customer' s credit quality as well as subjective factors and trends. Generally, these individual credit assessments occur prior to the inception of the credit exposure and at regular reviews during the life of the exposure and consider:

age of the receivables;
customer' s ability to meet and sustain its financial commitments;
customer' s current and projected financial condition;
collection experience with the customer;
historical bad debt experience with the customer;
the positive or negative effects of the current and projected industry outlook; and
the economy in general.

Once we consider all of these individual factors, an appropriate provision is then made, which takes into consideration the likelihood of loss and our ability to establish a reasonable estimate.

In addition to these individual assessments, a regional (except Asia) accounts past due provision is established for outstanding trade accounts receivable amounts based on a review of balances greater than six months past due. A regional trend analysis, based on past and expected write-off activity, is performed on a regular basis to determine the likelihood of loss and establish a reasonable estimate.

The following table summarizes our accounts receivable and long-term receivable balances and related reserves of our continuing operations as of:

	June 30, 2006	December 31, 2005
Gross accounts receivable	$2,886	$2,999
Provision for doubtful accounts	(101)	(137)
Accounts receivable − net	$2,785	$2,862
Accounts receivable provision as a percentage of gross accounts receivable	3%	5%
Gross long-term receivables	$52	$57
Provision for doubtful accounts	(30)	(33)
Net long-term receivables	$22	$24
Long-term receivable provision as a percentage of gross long-term receivables	58%	58%

Provisions for Inventory

Management must make estimates about the future customer demand for our products when establishing the appropriate provisions for inventory.

When making these estimates, we consider general economic conditions and growth prospects within our customers' ultimate marketplace, and the market acceptance of our current and pending products. These judgments must be made in the context of our customers' shifting technology needs and changes in the geographic mix of our customers. With respect to our provisioning policy, in general, we fully reserve for surplus inventory in excess of our 365 day demand forecast or that we deem to be obsolete. Generally, our inventory provisions have an inverse relationship with the projected demand for our products. For example, our provisions usually increase as projected demand decreases due to adverse changes in the conditions mentioned above. We have experienced significant changes in required provisions in recent periods due to changes in strategic direction, such as discontinuances of product lines, as well as declining market conditions. A misinterpretation or misunderstanding of any of these conditions could result in inventory losses in excess of the provisions determined to be appropriate as of the balance sheet date.

Our inventory includes certain direct and incremental deferred costs associated with arrangements where title and risk of loss was transferred to customers but revenue was deferred due to other revenue recognition criteria not being met. We have not recorded provisions against this type of inventory.

The following table summarizes our inventory balances and other related reserves of our continuing operations as of:

	June 30, 2006	December 31, 2005
Gross inventory	$3,835	$3,660
Inventory provisions	(1,070)	(1,039)
Inventories – net(a)	$2,765	$2,621
Inventory provisions as a percentage of gross inventory	28%	28%

(a) Includes long-term portion of inventory related to deferred costs, which is included in other assets.

Inventory provisions increased $31 as a result of $64 of additional inventory provisions and $76 of reclassifications and other adjustments, partially offset by $81 of scrapped inventory and $28 of reductions due to sale of inventory. In the future, we may be required to make significant adjustments to these provisions for the sale and/or disposition of inventory that was provided for in prior periods.

Provisions for Product Warranties

Provisions are recorded for estimated costs related to warranties given to customers on our products to cover defects. These provisions are calculated based on historical return rates as well as on estimates, which take into consideration the historical material replacement costs and the associated labor costs to correct the product defect. Known product defects are specifically provided for as we become aware of such defects. Revisions are made when actual experience differs materially from historical experience. These provisions for product warranties are part of the cost of revenues and are accrued when the revenue is recognized. They represent the best possible estimate, at the time the sale is made, of the expenses to be incurred under the warranty granted. Warranty terms generally range from one to six years from the date of sale depending upon the product.

We accrue for warranty costs as part of our cost of revenues based on associated material costs and technical support labor costs. Material cost is estimated based primarily upon historical trends in the volume of product returns within the warranty period and the cost to repair or replace the product. Technical support labor cost is estimated based primarily upon historical trends in the rate of customer warranty claims and projected claims within the warranty period.

The following table summarizes the accrual for product warranties that was recorded as part of other accrued liabilities in the consolidated balance sheets as of:

Balance as of December 31, 2005	$208
Payments	(140)
Warranties issued	138
Revisions	5
Balance as of June 30, 2006	$211

We engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers. Our estimated warranty obligation is based upon warranty terms, ongoing product failure rates, historical material replacement costs and the associated labor to correct the product defect. If actual product failure rates, material replacement costs, service or labor costs differ from our estimates, revisions to the estimated warranty provision would be required. If we experience an increase in warranty claims compared with our historical experience, or if the cost of servicing warranty claims is greater than the expectations on which the accrual is based, our gross margin could be negatively affected.

Tax Asset Valuation

Our net deferred tax assets balance, excluding discontinued operations, was $3,969 as of June 30, 2006 and $3,902 as of December 31, 2005. The $67 increase was primarily due to the effects of foreign exchange translation, partially offset by a drawdown of deferred tax assets in profitable jurisdictions. We currently have deferred tax assets resulting from net operating loss carryforwards, tax credit carryforwards and deductible temporary differences, all of which are available to

reduce future taxes payable in our significant tax jurisdictions. Generally, our loss carryforward periods range from seven years to an indefinite period. As a result, we do not expect that a significant portion of these carryforwards will expire in the near future.

During the second quarter of 2006, the Canadian government enacted a reduction in the federal tax rate. The overall rate reduction of approximately 3% will be phased in through 2010, at which time the federal rate will be 19%. As a result of this change in rates, our gross deferred tax asset was reduced with a corresponding decrease in the amount of valuation allowance established against the gross deferred tax asset.

We assess the realization of these deferred tax assets quarterly to determine whether an income tax valuation allowance is required. Based on available evidence, both positive and negative, we determine whether it is more likely than not that all or a portion of the remaining net deferred tax assets will be realized. The main factors that we consider include:

cumulative losses in recent years;
history of loss carryforwards and other tax assets expiring;
the carryforward period associated with the deferred tax assets;
the nature of the income that can be used to realize the deferred tax assets;
our net earnings (loss); and
future earnings potential determined through the use of internal forecasts.

In evaluating the positive and negative evidence, the weight given to each type of evidence must be proportionate to the extent to which it can be objectively verified. If it is our belief that it is more likely than not that some portion of these assets will not be realized, an income tax valuation allowance is recorded.

We are in a cumulative loss position in certain of our material jurisdictions. Primarily for this reason, we have recorded an income tax valuation allowance against a portion of these deferred income tax assets. However, due to the fact that the majority of the carryforwards do not expire in the near future and our future expectations of earnings, we concluded that it is more likely than not that the remaining net deferred income tax asset recorded as of June 30, 2006 will be realized. We continue to review all available positive and negative evidence in each jurisdiction and our valuation allowance may need to be adjusted in the future as a result of this ongoing review. Given the magnitude of our valuation allowance, future adjustments to this allowance based on actual results could result in a significant adjustment to our net earnings (loss).

During the six months ended June 30, 2006, our gross income tax valuation allowance increased to $3,640 compared to $3,410 as of December 31, 2005. The $230 increase was primarily due to the impacts of foreign exchange rates and other adjustments offset by additional valuation allowances recorded against the tax benefit of current period losses in certain jurisdictions. We assessed positive evidence including forecasts of future taxable income to support realization of the net deferred tax assets, and negative evidence including our cumulative loss position, and concluded that the valuation allowances as of June 30, 2006 were appropriate.

Goodwill Valuation

The carrying value of goodwill was $2,588 as of June 30, 2006 and $2,592 as of December 31, 2005. The decrease primarily relates to the divestiture to Flextronics and an adjustment of $6 related to the reduction of goodwill originally recorded as part of the acquisition of NGS, partially offset by our acquisition of Tasman Networks and foreign exchange fluctuations associated with minority interests.

Due to the change in our operating segments and reporting units as described in “Business Overview − Our Segments”, a triggering event occurred requiring a goodwill impairment test in the first quarter of 2006 in accordance with SFAS No. 142, “Goodwill and other Intangible Assets”. We performed this test and concluded that there was no impairment.

Special Charges

At each reporting date, we evaluate our accruals related to workforce reduction charges, contract settlement and lease costs and plant and equipment write-downs to ensure that these accruals are still appropriate. As of June 30, 2006, we had $49 in accruals related to workforce reduction charges and $240 in accruals related to contract settlement and lease costs, which included significant estimates, primarily related to sublease income over the lease terms and other costs for vacated properties. In certain instances, we may determine that these accruals are no longer required because of efficiencies in carrying out our restructuring work plan. Adjustments to workforce reduction accruals may also be required when employees previously identified for separation do not receive severance payments because they are no

longer employed by Nortel or were redeployed due to circumstances not foreseen when the original plan was initiated. In these cases, we reverse any related accrual to earnings when it is determined it is no longer required. Alternatively, in certain circumstances, we may determine that certain accruals are insufficient as new events occur or as additional information is obtained. In these cases, we would increase the applicable existing accrual with the offset recorded against earnings. Increases or decreases to the accruals for changes in estimates are classified within special charges in the statement of operations.

Accounting Changes and Recent Accounting Pronouncements

Accounting Changes

Our unaudited financial statements are based on the selection and application of accounting policies, generally accepted in the U.S. For more information related to the accounting policies that we adopted as a result of new accounting standards, see "Accounting changes" in note 2 of the accompanying unaudited financial statements. The following summarizes the accounting changes that we have adopted:

The Meaning of Other-than-Temporary Impairment and its Application to Certain Investments − As of January 1, 2006, we adopted the United States Emerging Issues Task Force EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", or EITF 03-1, re-titled FASB Staff Position ("FSP"), FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", or FSP FAS 115-1 and FAS 124-1. The adoption of FSP FAS 115-1 and FAS 124-1 did not have a material impact on our results of operations and financial condition.

Inventory Costs − As of January 1, 2006, we adopted FASB SFAS No. 151, "Inventory Costs", or SFAS 151. The adoption of SFAS 151 did not have a material impact on our results of operations and financial condition.

Share-Based Payment − In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment", or SFAS 123R, which requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the consolidated financial statements based on their fair values. SFAS 123R also modifies certain measurement and expense recognition provisions of SFAS 123 that will impact us, including the requirement to estimate employee forfeitures each period when recognizing compensation expense and requiring that the initial and subsequent measurement of the cost of liability-based awards each period be based on the fair value (instead of the intrinsic value) of the award. This statement is effective for us as of January 1, 2006. We previously elected to expense employee stock-based compensation using the fair value method prospectively for all awards granted or modified on or after January 1, 2003 in accordance with SFAS No. 148, "Accounting for Stock Based Compensation − Transition and Disclosure", or SFAS 148. SAB 107, "Share-Based Payment", or SAB 107, was issued by the SEC in March 2005, and provides supplemental SFAS 123R application guidance based on the views of the SEC. As a result of the adoption of SFAS 123R in the first quarter of 2006, we recorded a gain of $9 as a cumulative effect of an accounting change. There were no other material impacts on our results of operations and financial condition as a result of the adoption of SFAS 123R. For additional disclosures related to SFAS 123R, see note 16 of the accompanying unaudited financial statements.

Accounting Changes and Error Corrections − In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", or SFAS 154, which replaces Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements − An Amendment of APB Opinion No. 28". SFAS 154 provides guidance on the accounting for and reporting of changes in accounting principles and error corrections. SFAS 154 requires retrospective application to prior period financial statements of voluntary changes in accounting principles and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. SFAS 154 also requires certain disclosures for restatements due to correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and was adopted by us as of January 1, 2006. The impact that the adoption of SFAS 154 will have on our consolidated results of operations and financial condition will depend on the nature of future accounting changes adopted by us and the nature of transitional guidance provided in future accounting pronouncements.

Accounting for Purchases and Sales of Inventory with the same Counterparty − As of April 1 2006, we adopted EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty", or EITF 04-13. The adoption of EITF 04-13 did not have a material impact on our results of operations and financial condition.

Recent Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 155, "Accounting for Certain Hybrid Financial Instruments − an amendment to FASB Statements No. 133 and 140" or SFAS 155. SFAS 155 simplifies the accounting for certain hybrid financial instruments containing embedded derivatives. SFAS 155 allows fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", or SFAS 133"). In addition, it amends SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" , or SFAS 140"), to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired, issued, or subject to a re-measurement event occurring after the beginning of an entity' s first fiscal year that begins after September 15, 2006. Nortel will adopt the provisions of SFAS 155 on January 1, 2007. The implementation of SFAS 155 is not expected to have a material impact on Nortel' s results of operations and financial condition.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets − an amendment of FASB Statement No. 140", or SFAS 156. SFAS 156 simplifies the accounting for assets and liabilities arising from loan servicing contracts. SFAS 156 requires that servicing rights be valued initially at fair value, and subsequently either (i) accounted for at fair value or (ii) amortized over the period of estimated net servicing income/ loss, with an assessment for impairment or increased obligation each reporting period. SFAS 156 is effective for fiscal years beginning after September 15, 2006. Nortel will adopt the provisions of SFAS 156 on January 1, 2007. The implementation of SFAS 156 is not expected to have a material impact on Nortel' s results of operations and financial condition.

In April 2006, the FASB issued FSP, FASB Interpretation No. ("FIN"), 46(R)-6, "Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R)", or FSP FIN 46(R)-6. FSP FIN 46(R)-6 provides accounting guidance on how to distinguish between arrangements that create variability (i.e., the risks and rewards) within an entity and arrangements that are subject to that variability (i.e., variable interests). FSP FIN 46(R)-6 is responding to a need for accounting guidance on arrangements that can be either assets or liabilities (e.g., derivative financial instruments). FSP FIN 46(R)-6 is effective for the first fiscal period that begins after June 15, 2006. Nortel will adopt the provisions of FSP FIN 46(R)-6 effective July 1, 2006. Nortel is currently in the process of assessing the impact of FSP FIN 46(R)-6 on its results of operations and financial condition.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109", or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise' s financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes", or SFAS 109. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides accounting guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Nortel will adopt the provisions of FIN 48 on January 1, 2007. Nortel is currently in the process of assessing the impact of FIN 48 on Nortel' s results of operations and financial condition.

Outstanding Share Data

As of July 25, 2006, Nortel Networks Corporation had 4,335,727,064 outstanding common shares.

As of July 25, 2006, 318,848,577 issued and 10,840,569 assumed stock options were outstanding and 199,199,399 and 10,840,459, respectively, are exercisable for common shares of Nortel Networks Corporation on a one-for-one basis.

As of July 25, 2006, 14,162,000 restricted stock units and 4,310,000 performance stock units were outstanding. Once vested, each restricted stock unit and performance stock unit entitles the holder to receive one common share of Nortel Networks Corporation or, in our discretion, cash in lieu of common shares in certain circumstances from treasury or through open market purchases at our option.

In addition, Nortel Networks Corporation previously issued $1,800 of 4.25% Convertible Senior Notes, or Convertible Senior Notes, due on September 1, 2008. The Convertible Senior Notes are convertible, at any time, by holders into common shares of Nortel Networks Corporation, at an initial conversion price of $10 per common share, subject to adjustment upon the occurrence of certain events including the potential consolidation of Nortel Networks Corporation common shares.

Market Risk

Market risk represents the risk of loss that may impact our consolidated financial statements due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates and foreign exchange rates. Disclosure of market risk is contained in "Quantitative and Qualitative Disclosures About Market Risks" section of this report and in our 2005 Annual Report.

Equity Price Risk

The values of our equity investments in several publicly traded companies are subject to market price volatility. These investments are generally in companies in the technology industry sector and are classified as available for sale. We typically do not attempt to reduce or eliminate the market exposure on these investment securities. We also hold certain derivative instruments or warrants that are subject to market price volatility because their value is based on the common share price of a publicly traded company. These derivative instruments are generally acquired through business acquisitions or divestitures. In addition, derivative instruments may also be purchased to hedge exposure to certain compensation obligations that vary based on future Nortel Networks Corporation common share prices. We do not hold equity securities or derivative instruments for trading purposes.

Environmental Matters

We are exposed to liabilities and compliance costs arising from its past management and disposal of hazardous substances and wastes. As of June 30, 2006, the accruals on the consolidated balance sheet for environmental matters were $29. Based on information available as of June 30, 2006, we believe that the existing accruals are sufficient to satisfy probable and reasonably estimable environmental liabilities related to known environmental matters. Any additional liabilities that may result from these matters, and any additional liabilities that may result in connection with other locations currently under investigation, are not expected to have a material adverse effect on our business, results of operations, financial condition and liquidity.

We have remedial activities under way at 14 sites which are either currently or previously owned or occupied facilities. An estimate of our anticipated remediation costs associated with all such sites, to the extent probable and reasonably estimable, is included in the environmental accruals referred to above in an approximate amount of $29.

We are also listed as a potentially responsible party under the U.S. Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") at four Superfund sites in the U.S. (two Potentially Responsible Party and two de minimis Potentially Responsible Party). An estimate of our share of the anticipated remediation costs associated with such Superfund sites is included in the environmental accruals of $29 referred to above.

Liability under CERCLA may be imposed on a joint and several basis, without regard to the extent of our involvement. In addition, the accuracy of our estimate of environmental liability is affected by several uncertainties such as additional requirements which may be identified in connection with remedial activities, the complexity and evolution of environmental laws and regulations, and the identification of presently unknown remediation requirements. Consequently, our liability could be greater than its current estimate.

For a discussion of Environmental matters, see "Contingencies" in note 18 of the accompanying unaudited financial statements.

Legal Proceedings

For additional information related to our legal proceedings, see "Contingencies" in note 18 of the accompanying unaudited financial statements, "Developments in 2006 − Significant Business Developments − Global Class Action Settlement", "Restatements; Material Weaknesses; Related Matters − Regulatory Actions"; and "Risk Factors" section of this report.

Cautionary Notice Regarding Forward Looking Information

Actual results or events could differ materially from those contemplated in forward-looking statements as a result of the following (i) risks and uncertainties relating to our restatements and related matters including: our most recent restatement and two previous restatements of our financial statements and related events; the negative impact on us and NNL of our most recent restatement and delay in filing our financial

statements and related periodic reports, legal judgments, fines, penalties or settlements, or any substantial regulatory fines or other penalties or sanctions, related to the ongoing regulatory and criminal investigations of us in the U.S. and Canada; any significant pending civil litigation

actions not encompassed by the Global Class Action Settlement; any substantial cash payment and/or significant dilution of our existing shareholders' equity positions resulting from approval of the Global Class Action Settlement, or if the Global Class Action Settlement is not approved, any larger settlements or awards of damages in respect of such class actions; any unsuccessful remediation of our material weaknesses in internal control over financial reporting resulting in an inability to report our results of operations and financial condition accurately and in a timely manner; the time required to implement our remedial measures; our inability to access, in its current form, our shelf registration filed with the SEC, and our below investment grade credit rating and any further adverse effect on our credit rating due to our restatements of our financial statements; any adverse affect on our business and market price of our publicly traded securities arising from continuing negative publicity related to our restatements; our potential inability to attract or retain the personnel necessary to achieve our business objectives; any breach by us of the continued listing requirements of the NYSE or TSX causing the NYSE and/or the TSX to commence suspension or delisting procedures; (ii) risks and uncertainties relating to our business including: yearly and quarterly fluctuations of our operating results; reduced demand and pricing pressures for our products due to global economic conditions, significant competition, competitive pricing practice, cautious capital spending by customers, increased industry consolidation, rapidly changing technologies, evolving industry standards, frequent new product introductions and short product life cycles, and other trends and industry characteristics affecting the telecommunications industry; any material and adverse affects on our performance if our expectations regarding market demand for particular products prove to be wrong or because of certain barriers in our efforts to expand internationally; any reduction in our operating results and any related volatility in the market price of our publicly traded securities arising from any decline in our gross margin, or fluctuations in foreign currency exchange rates; any negative developments associated with our supply contract and contract manufacturing agreements including as a result of using a sole supplier for key optical networking solutions components, and any defects or errors in our current or planned products; any negative impact to us of our failure to achieve our business transformation objectives; additional valuation allowances for all or a portion of our deferred tax assets; our failure to protect our intellectual property rights, or any adverse judgments or settlements arising out of disputes regarding intellectual property; changes in regulation of the Internet and/or other aspects of the industry; any failure to successfully operate or integrate our strategic acquisitions, or failure to consummate or succeed with our strategic alliances; any negative effect of our failure to evolve adequately our financial and managerial control and reporting systems and processes, manage and grow our business, or create an effective risk management strategy; and (iii) risks and uncertainties relating to our liquidity, financing arrangements and capital, including: the impact of our most recent restatement and two previous restatements of our financial statements; any inability of us to manage cash flow fluctuations to fund working capital requirements or achieve our business objectives in a timely manner or obtain additional sources of funding; high levels of debt, limitations on us capitalizing on business opportunities because of credit facility covenants, or on obtaining additional secured debt pursuant to the provisions of indentures governing certain of our public debt issues and the provisions of our credit facilities; any increase of restricted cash requirements for us if we are unable to secure alternative support for obligations arising from certain normal course business activities, or any inability of our subsidiaries to provide us with sufficient funding; any negative effect to us of the need to make larger defined benefit plans contributions in the future or exposure to customer credit risks or inability of customers to fulfill payment obligations under customer financing arrangements; any negative impact on our ability to make future acquisitions, raise capital, issue debt and retain employees arising from stock price volatility and further declines in the market price of our publicly traded securities, or any future share consolidation resulting in a lower total market capitalization or adverse effect on the liquidity of our common shares. For additional information with respect to certain of these and other factors, see our 2005 Annual Report, the "Risk Factors" sections of this report and the 2006 First Quarter Report, and our other securities filings with the SEC. Unless otherwise required by applicable securities laws, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact Nortel' s consolidated financial statements through adverse changes in financial market prices and rates. Nortel' s risk exposure results primarily from fluctuations in interest rates and foreign exchange rates. To manage the risk from these fluctuations, Nortel enters into various derivative-hedging transactions that it has authorized under its policies and procedures. Nortel maintains risk management control systems to monitor market risks and counterparty risks. These systems rely on analytical techniques including both sensitivity analysis and value-at-risk estimations. Nortel does not hold or issue financial instruments for trading purposes.

Nortel manages foreign exchange exposures using forward and option contracts to hedge sale and purchase commitments. Nortel' s most significant foreign exchange exposures are in the Canadian dollar, the British pound and the euro. Nortel enters into U.S. to Canadian dollar forward and option contracts intended to hedge the U.S. to Canadian dollar exposure on future revenues and expenditure streams. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", Nortel recognizes the gains and losses on the effective portion of these contracts in earnings when the hedged transaction occurs. Any ineffective portion of these contracts is recognized in earnings immediately.

Nortel expects to continue to expand its business globally and, as such, expects that an increasing proportion of Nortel' s business may be denominated in currencies other than U.S. dollars. As a result, fluctuations in foreign currencies may have a material impact on Nortel' s business, results of operations and financial condition. Nortel tries to minimize the impact of such currency fluctuations through its ongoing commercial practices and by attempting to hedge its major currency exposures. In attempting to manage this foreign exchange risk, it identifies operations and transactions that may have exposure based upon the excess or deficiency of foreign currency receipts over foreign currency expenditures. Given Nortel' s exposure to international markets, it regularly monitors all of its material foreign currency exposures. However, if significant foreign exchange losses are experienced, they could have a material adverse effect on its business, results of operations and financial condition.

A portion of Nortel' s long-term debt is subject to changes in fair value resulting from changes in market interest rates. Nortel has hedged a portion of this exposure to interest rate volatility using fixed for floating interest rate swaps. Changes in fair value of the swaps are recognized in earnings with offsetting amounts related to the change in the fair value of the hedged debt attributable to interest rate changes. Any ineffective portion of the swaps is recognized in earnings immediately. Nortel records net settlements on these swap instruments as adjustments to interest expense**.** In the second quarter of 2006, following the issuance of the Notes, Nortel entered into interest rate swaps to convert its fixed interest rate exposure under the Notes to a floating rate equal to LIBOR plus 4.625%. Nortel entered into these interest rate swaps in order to offset floating assets and floating liabilities and minimize income statement volatility related to interest rate movements.

Historically, Nortel has managed interest rate exposures, as they relate to interest expense, using a diversified portfolio of fixed and floating rate instruments denominated in several major currencies. Nortel uses sensitivity analysis to measure its interest rate risk. The sensitivity analysis includes cash, outstanding floating rate long-term debt and any outstanding instruments that convert fixed rate long-term debt to floating rate long-term debt. There have been no significant changes to Nortel' s market risk during the second quarter of 2006.

ITEM 4. Controls and Procedures

Management Conclusions Concerning Disclosure Controls and Procedures

We carried out an evaluation under the supervision and with the participation of management, including the CEO and CFO (Mike S. Zafirovski and Peter W. Currie, respectively), pursuant to Rule 13a-15 under the Unites States Securities Exchange Act of 1934, or the Exchange Act, of the effectiveness of our disclosure controls and procedures as at June 30, 2006 (the end of the period covered by this report).

In making this evaluation, the CEO and CFO considered, among other matters:

- our successive restatements of our financial statements, including the Third Restatement;
- the findings of the Independent Review summarized in the "Summary of Findings and of Recommended Remedial Measures of the Independent Review", submitted to the Audit Committee in January 2005 by WilmerHale and Huron Consulting Services LLC, or the Independent Review Summary, included in Item 9A of our 2003 Annual Report;
- the material weaknesses in our internal control over financial reporting that we and our independent registered chartered accountants, Deloitte, have identified (as more fully described below);
- management' s assessment of our internal control over financial reporting and conclusion that our internal control over financial reporting was not effective as at December 31, 2005 (including the matters disclosed under "Management' s Assessment and Observation' s included in Item 9A of our 2005 Annual Report), and Deloitte' s attestation report with respect to that assessment and conclusion, each pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404, included in Item 9A of our 2005 Annual Report;
- the conclusion of the CEO and CFO that our disclosure controls and procedures, as at March 31, 2006 were not effective, included in Item 4 of our 2006 First Quarter Report;
- the findings of the Revenue Independent Review included in Item 9A of our 2005 Annual Report;
- the findings of the Internal Audit Review included in Item 4 of our 2006 First Quarter Report; and
- the remedial measures we have identified, developed and begun to implement to address these issues.

Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures as at June 30, 2006 were not effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required and that it is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

In light of this conclusion, we have applied compensating procedures and processes as necessary to ensure the reliability of our financial reporting. Accordingly, management believes, based on its knowledge, that (i) this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading with respect to the period covered by this report and (ii) the financial statements, and other financial information included in this report, fairly present in all material respects our financial condition, results of operations and cash flows as at, and for, the periods presented in this report.

Material Weaknesses in Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting should include those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As previously disclosed in Item 9A of our 2005 Annual Report, management, including the CEO and CFO, assessed the effectiveness of our internal control over financial reporting, and concluded that five material weaknesses in our internal control over financial reporting existed, as at December 31, 2005. These material weaknesses, which are the same material weaknesses that existed as at December 31, 2004 and as first reported in our 2003 Annual Report, are:

lack of compliance with written Nortel procedures for monitoring and adjusting balances related to certain accruals and provisions, including restructuring charges and contract and customer accruals;
lack of compliance with Nortel procedures for appropriately applying applicable GAAP to the initial recording of certain liabilities, including those described in SFAS No. 5, and to foreign currency translation as described in SFAS No. 52;
lack of sufficient personnel with appropriate knowledge, experience and training in U.S. GAAP and lack of sufficient analysis and documentation of the application of U.S. GAAP to transactions, including, but not limited to, revenue transactions;
lack of a clear organization and accountability structure within the accounting function, including insufficient review and supervision, combined with financial reporting systems that are not integrated and which require extensive manual interventions; and
lack of sufficient awareness of, and timely and appropriate remediation of, internal control issues by Nortel personnel.

As used above, “material weakness” means a significant deficiency (within the meaning of Public Company Accounting Oversight Board Auditing Standard No. 2), or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected.

These material weaknesses, if not fully addressed, could result in accounting errors such as those underlying the multiple restatements of our consolidated financial statements more fully discussed in our 2005 Annual Report.

Remedial Measures

We have identified, developed and are implementing remedial measures in light of the findings of the Independent Review and Revenue Independent Review, and of management’ s assessment of the effectiveness of internal control over financial reporting, to strengthen our internal control over financial reporting and disclosure controls and procedures, and to address the material weaknesses in our internal control over financial reporting.

At the recommendation of the Audit Committee, the Board of Directors adopted all of the recommendations for remedial measures contained in the Independent Review Summary. Those governing remedial principles were designed to prevent recurrence of the inappropriate accounting conduct found in the Independent Review, to rebuild a finance environment based on transparency and integrity, and to ensure sound financial reporting and comprehensive disclosure. The governing remedial principles included:

establishing standards of conduct to be enforced through appropriate discipline;
infusing strong technical skills and experience into the finance organization;
requiring comprehensive, on-going training on increasingly complex accounting standards;
strengthening and improving internal controls and processes;
establishing a compliance program throughout the Company which is appropriately staffed and funded;
requiring management to provide clear and concise information, in a timely manner, to the Board of Directors to facilitate its decision-making; and
implementing an information technology platform that improves the reliability of financial reporting and reduces the opportunities for manipulation of results.

See the Independent Review Summary for further information concerning these governing principles as they relate to three identified categories − people, processes and technology.

The Board of Directors recognized that its adoption of these governing principles was the beginning of a long and vitally important process. It directed management to develop a detailed plan and timetable for the implementation of these remedial measures. Management developed an implementation plan, which was approved by the Board of Directors, and has begun implementation of that plan. Certain remedial measures that management has been implementing include: the

hiring of key senior management including our CFO, Controller and Chief Audit, Security and Compliance Officer; reorganization of the finance organization to segregate control and planning and forecasting responsibilities; strengthening of the internal audit function; and continual review and improvements to controls around the review and approval of accounting entries. The Board of Directors continues to monitor the ongoing implementation efforts.

In February 2005, the Board of Directors approved a program to transform our finance organization' s structure, processes and finance systems to create a more effective organization with segregated functions and clear accountabilities built around global standard processes based on SAP. SAP is a software package that will allow us to consolidate many of our numerous computer systems into an integrated finance system. We expect that the global phased SAP finance implementation will reduce the chance of error, including through a significant reduction in manual journal entries, improve speed of the consolidation process and increase transparency of journal entries to senior management.

Management has also identified, developed and is implementing a number of measures to strengthen our internal control over financial reporting and disclosure controls and procedures, and to address the material weaknesses in our internal control over financial reporting. These measures include the compensating procedures and processes that we have applied, in light of our material weaknesses and ineffective internal control over financial reporting and disclosure controls and procedures, to ensure the reliability of our financial reporting. Further, as part of the strengthening of our 2006 SOX 404 program, and specifically to monitor the progress on remedial efforts towards addressing our material weaknesses, in the second quarter of 2006 we established a SOX Steering Committee comprised of senior management from finance, legal, human resources, internal audit, information services and operations. The committee meets biweekly. In addition, the SOX VP regularly meets with internal audit and reports to the Audit Committee on the continuing development and implementation of plans to address our material weaknesses.

Management also has taken, and will continue to take where appropriate, steps to augment the organization with individuals of requisite skill to address the material weaknesses. We have taken disciplinary action with respect to some employees, including employee terminations where appropriate. Senior management has regularly communicated to our employees, through education sessions, 'town hall' meetings and training, that it will not tolerate accounting conduct that involves the misapplication of U.S. GAAP and will hold employees accountable for their actions and decisions.

We expect that full implementation of the remedial measures contained in the Independent Review Summary and full remediation of our material weaknesses, our internal control over financial reporting and our disclosure controls and procedures will continue to take significant time and effort, due largely to the complexity and extensive nature of some of the remediation required and a need to increase the co-ordination of remedial efforts within the Company in order to implement one comprehensive remediation plan with a well defined set of objectives and agreed upon timelines. These initiatives were impacted in 2005 and in 2006 to date by the substantial efforts needed to reestablish our current financial reporting in accordance with U.S. and Canadian securities laws, the significant turnover in our finance personnel, changes in our accounting systems and continuing documentation weaknesses. Management continues to assess the internal and external resources that will be needed to continue to implement, support, sustain and monitor the effectiveness of our ongoing and future remedial efforts. For a further discussion of certain management observations related to the complexity of the remedial efforts, see Item 9A of our 2005 Annual Report.

In addition, in part as a result of the compensating procedures and processes that we are applying to our financial reporting process, during the preparation of our financial statements for recent periods (including 2004, 2005 and interim periods in 2005), we identified a number of adjustments to correct accounting errors related to prior periods, including the errors corrected in the Third Restatement. In the past, we also recorded adjustments that were immaterial to the then current period and to the prior periods in the financial statements for the then current period. As long as we continue to have material weaknesses in our internal control over financial reporting, we may in the future identify similar adjustments to prior period financial information. Adjustments that may be identified in the future could require further restatement of our financial statements.

Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended June 30, 2006, the following changes occurred in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting:

As part of the completion of the portion of the Flextronics transaction related to the manufacturing activities in Calgary, Canada, as described in greater detail under "Business Overview − Evaluation of Our Supply Chain Strategy" in the MD&A section of this report, in the second quarter of 2006 we transferred existing accounts payable and supply chain functions related to the Calgary activities to SAP as well as, approximately 650 employees from various business functions located primarily in Calgary to Flextronics. In relation to these activities, we have modified our internal control over financial reporting to accommodate changes in our business processes and implemented certain compensating manual processes and controls that we continue to monitor.

NGS consolidated its various enterprise resource planning systems and supporting accounting applications into one system, reducing certain manual processes and we are monitoring this new system.

PART II

OTHER INFORMATION

ITEM 1. Legal Proceedings

On May 25, 2006, Mr. Michael Gollogly filed a Statement of Claim in the Ontario Superior Court of Justice against Nortel and NNL asserting claims for wrongful dismissal and seeking compensatory, aggravated and punitive damages, damages for mental distress, pre and post-judgment interest and costs.

Other than referenced above, there have been no material developments in our material legal proceedings as previously reported in our 2005 Annual Report and the 2006 First Quarter Report. For additional discussion of our material legal proceedings, see "Contingencies" in note 18 of the accompanying unaudited financial statements and the "Risk Factors" section of this report.

ITEM 1A. Risk Factors

Certain statements in this Quarterly Report on Form 10-Q contain words such as "could", "expects", "may", "anticipates", "believes", "intends", "estimates", "plans", "envisions", "seeks" and other similar language and are considered forward-looking statements. These statements are based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. In addition, other written or oral statements which are considered forward looking may be made by us or others on our behalf. These statements are subject to important risks, uncertainties and assumptions, which are difficult to predict and the actual outcome may be materially different. In particular, the risks described below could cause actual events to differ materially from those contemplated in forward-looking statements. Unless required by applicable securities laws, we do not have any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" sections in our 2005 Annual Report and 2006 First Quarter Report, which could materially affect our business, results of operations, financial condition or liquidity. The risks described herein and in our 2005 Annual Report and 2006 First Quarter Report are not the only risks facing Nortel. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially adversely affect our business, results of operations, financial condition and/or liquidity. The risks described in our 2005 Annual Report have not materially changed, other than as set forth below.

Risks Relating to Our Restatements and Related Matters

Material adverse legal judgments, fines, penalties or settlements, including the Global Class Action Settlement, could have a material adverse effect on our business, results of operations, financial condition and liquidity, which could be very significant.

We estimate that our cash will be sufficient to fund the changes to our business model in accordance with our strategic plan (see "Business Overview − Our Strategy" in the MD&A section of this report), fund our investments and meet our customer commitments for at least the next twelve month period commencing June 30, 2006, including cash expenditures outlined under "Liquidity and Capital Resources − Future Uses of Liquidity" in the MD&A section of this report. In making this estimate, we have not assumed the need to make any payments in respect of fines or other penalties or judgments or settlements in connection with our pending civil litigation (other than those encompassed by the Global Class Action Settlement and for anticipated professional fees and expenses) or regulatory or criminal investigations related to the restatements, which could have a material adverse effect on our business, results of operations, financial condition and liquidity. Any such payments (in addition to those encompassed by the Global Class Action Settlement) could materially and adversely affect our cash position, our available cash and cash flow from operations may not be sufficient to pay them, and additional sources of funding may not be available to us on commercially reasonable terms or at all. If we are unable to refinance our existing debt that is coming due in 2008, should we decide to do so, the amount of cash available to finance our operations and other business activities and our ability to pay any judgments, fines, penalties or settlements, if any, would be significantly reduced, which could have a material adverse effect on our business, results of operations, financial condition and liquidity.

These circumstances could have a material adverse effect on our business, results of operations, financial condition and liquidity, including by:

- requiring us to dedicate a substantial portion of our cash and/or cash flow from operations to payments of such judgments, fines, penalties or settlements, thereby reducing the availability of our cash and/or cash flow to fund working capital, capital expenditures, R&D efforts and other general corporate purposes, including debt reduction;
- making it more difficult for us to satisfy our payment obligations with respect to our outstanding indebtedness;
- increasing the difficulty and/or cost to us of refinancing our indebtedness, should we decide to do so;
- adversely affecting our credit ratings;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- making it more difficult or more costly for us to make acquisitions and investments;
- limiting our ability to obtain, and/or increasing the cost of obtaining, directors' and officers' liability insurance and/or other types of insurance; and
- restricting our ability to introduce new technologies and products and/or exploit business opportunities.

Risks Relating to Our Liquidity, Financing Arrangements and Capital

Cash flow fluctuations may affect our ability to fund our working capital requirements or achieve our business objectives in a timely manner. Additional sources of funds may not be available on acceptable terms or at all.

Our working capital requirements and cash flows historically have been, and are expected to continue to be, subject to quarterly and yearly fluctuations, depending on such factors as timing and size of capital expenditures, levels of sales, timing of deliveries and collection of receivables, inventory levels, customer payment terms, customer financing obligations and supplier terms and conditions. As of June 30, 2006, our primary source of liquidity was cash and we expect this to continue throughout 2006. Based on past performance and current expectations we do not expect our operations to generate significant cash flow in 2006. We estimate that as our cash will be sufficient to fund the changes to our business model in accordance with our strategic plan (see "Business Overview − Our Strategy" in the MD&A section of this report), fund our investments and meet our customer commitments for at least the next twelve month period commencing June 30, 2006, including cash expenditures outlined under "Liquidity and Capital Resources − Future Uses of Liquidity" in the MD&A section of this report. In making this estimate, we have not assumed the need to make any payments in respect of fines or other penalties or judgments or settlements in connection with our pending civil litigation not encompassed by the Global Class Action Settlement or regulatory or criminal investigations related to the restatements, which could have a material adverse effect on our business, results of operations, financial condition and liquidity, other than anticipated professional fees and expenses. As more fully discussed under "Material adverse legal judgments, fines, penalties or settlements, including the Global Class Action Settlement, could have a material adverse effect on our business, results of operations, financial condition and liquidity, which could be very significant," these payments could materially and adversely affect our cash position, our available cash and cash flow from operations may not be sufficient to pay them, and additional sources of funding may not be available to us on commercially reasonable terms or at all.

If we are unable to refinance our existing debt that is coming due in 2008, should we decide to do so, the amount of cash available to finance our operations and other business activities and our ability to pay any judgments, fines, penalties or settlements, if any, would be significantly reduced, which could have a material adverse effect on our business, results of operations, financial condition and liquidity. Other factors, discussed more fully elsewhere in this section, may also result in our net cash requirements exceeding our current expectations and negatively affect the amount of cash available to finance our operations and other business activities, including:

- a greater than expected slowdown in capital spending by service providers and other customers, increased pricing and product margin pressures, or other changes to our business model could result in materially lower revenues and cash flows;
- costs incurred in connection with restructuring efforts may be higher than originally planned and may not lead to the anticipated cost savings;
- changes in market demand for networking products, which may require increased expenditures to develop and market different technologies;
- we may need to make larger contributions to our defined benefit plans in North America and the U.K. and retirement plans in other countries;
- an increased portion of our cash and cash equivalents may be restricted as cash collateral for customer performance bonds and contracts if the industry or our current condition deteriorates; and
- an inability of our subsidiaries to provide us with funding in sufficient amounts could adversely affect our ability to meet our obligations.

We may seek additional funds from liquidity-generating transactions and other sources of external financing (which may include a variety of debt, convertible debt and/or equity financings), but these financings may not be available to us on acceptable terms or at all. In addition, we may not continue to have access to the EDC Support Facility when and as needed. Our inability to manage cash flow fluctuations resulting from the above factors and the potential reduction, expiry or termination of the EDC Support Facility could have a material adverse effect on our ability to fund our working capital requirements from operating cash flows and other sources of liquidity or to achieve our business objectives in a timely manner. These circumstances could, for example:

- make it more difficult for us to satisfy our obligations under our outstanding debt and other obligations and to pay any judgments, fines, penalties or settlements in connection with our pending civil litigation and investigations;

require us to delay or reduce capital expenditures or the introduction of new products, sell assets and/or forego business opportunities such as acquisitions, R&D projects or product design enhancements;
increase our vulnerability to economic downturns, adverse industry conditions and adverse developments in our business, and limit our flexibility in planning for or reacting to such changes; and
place us at a competitive disadvantage compared to competitors that have greater liquidity.

Our high level of debt could materially and adversely affect our business, results of operations, financial condition and liquidity.

In order to finance our business, we have incurred significant levels of debt. As of June 30, 2006, we had approximately $3.8 billion of debt reflected on our consolidated balance sheet, of which $2.2 billion was notes outstanding under our public debt indentures and $194 million was outstanding under the EDC Support Facility. In addition, on July 5, 2006 we completed an offering of $2 billion aggregate principal amount of senior notes to qualified institutional buyers pursuant to Rule 144A and to persons outside the United States pursuant to Regulation S under the U.S. Securities Act of 1933, as amended. NNL used $1.3 billion of the net proceeds, from this offering, to repay the 2006 Credit Facility. In the future, we may need to obtain additional sources of funding, which may include debt or convertible debt financing. A high level of debt, arduous or restrictive terms and conditions related to accessing certain sources of funding, or any significant reduction in, or access to, the EDC Support Facility, could materially and adversely affect our ability to fund the operations of our business.

Other effects of our high degree of leverage include the following:

it could be more difficult for us to satisfy our obligations under our outstanding debt and other obligations;
we may have difficulty borrowing money in the future or accessing other sources of funding;
we may have difficulty refinancing our existing debt, should we decide to do so;
we may need to dedicate a substantial portion of our cash and cash flow from operations to debt payments, thereby significantly reducing the availability of our cash and cash flow from operations for other purposes, including payments of judgments, settlements, fines or other penalties and our operational needs (for example, in order to meet our debt service obligations, we may be required to delay or reduce capital expenditures or the introduction of new products, sell assets and/or forego business opportunities such as acquisitions, R&D projects or product design enhancements);
increase our vulnerability to economic downturns, adverse industry conditions and adverse developments in our business, and limit our flexibility in planning for or reacting to such changes; and
place us at a competitive disadvantage compared to competitors that have less debt.

Covenants in the indenture governing certain of our senior notes impose operating and financial restrictions on us, which may prevent us from capitalizing on business opportunities.

The indenture governing the senior notes we issued on July 5, 2006 contains various covenants that limit our ability to create liens (other than certain permitted liens) against assets of NNC and its restricted subsidiaries to secure funded debt in excess of certain permitted amounts without equally and ratably securing the notes and to merge, consolidate and sell or otherwise dispose of substantially all of the assets of any of NNC, NNL and, so long as NNI is a guarantor of the notes, NNI unless the surviving entity or purchaser of such assets assumes the obligations of NNC, NNL or NNI, as the case may be, under the notes and related guarantees and no default exists under the indenture after giving effect to such merger, consolidation or sale.

In addition, the indenture contains covenants that, at any time that the notes do not have an investment grade rating, limit our ability to incur, assume, issue or guarantee additional funded debt (including capital leases) and certain types of preferred stock, or repurchase, redeem, retire or pay any dividends in respect of any Nortel Networks Corporation stock or NNL preferred stock, in excess of certain permitted amounts or incur debt that is subordinated to any other debt of NNC, NNL or NNI, without having that new debt be expressly subordinated to the notes and the guarantees. At any time that the notes do not have an investment grade rating, our ability to incur additional indebtedness and pay dividends is tied to an Adjusted EBITDA to fixed charges ratio of, except that Nortel may incur certain debt and make certain restricted payments without regard to the ratio up to certain permitted amounts. Adjusted EBITDA is generally defined as consolidated earnings before interest, taxes, depreciation and amortization, adjusted for certain restructuring charges and other one-time charges and gains that will be excluded from the calculation of Adjusted EBITDA. “Fixed charges” is defined in the indenture as consolidated interest expense plus dividends paid on certain preferred stock. See “Liquidity and Capital Resources − Cash Flow − Credit Facility and Senior Notes” for more information.

Upon a change of control, NNL is required within 30 days to make an offer to purchase the Notes then outstanding at a purchase price equal to 101% plus accrued and unpaid interest. A “change of control” is defined in the indenture governing the notes as, among other things, the filing of a Schedule 13D or Schedule TO under the Securities Exchange Act of 1934, as amended, by any person or group unaffiliated with Nortel disclosing that such person or group has become the beneficial owner of a majority of the voting stock of Nortel Networks Corporation or has the power to elect a majority of the members of the Board of Directors of Nortel or it ceases to be the beneficial owner of 100% of the voting power of the common stock of NNL.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the second quarter of 2006, Nortel Networks Corporation issued an aggregate of 39,432 shares upon the exercise of options granted under the Nortel Networks/ BCE 1985 Stock Option Plan and the Nortel Networks/ BCE 1999 Stock Option Plan. The common shares issued on the exercise of these options were issued outside of the United States to BCE Inc. employees who were not United States persons at the time of option exercise, or to BCE in connection with options that expired unexercised or were forfeited. The common shares issued are deemed to be exempt from registration pursuant to Regulation S under the United States Securities Act of 1933 (the "Securities Act"), as amended. All funds received by Nortel Networks Corporation in connection with the exercise of stock options granted under the two Nortel Networks/ BCE stock option plans are transferred in full to BCE pursuant to the terms of the May 1, 2000 plan of arrangement, except for nominal amounts paid to Nortel Networks Corporation to round up fractional entitlements into whole shares. Nortel Networks Corporation keeps these nominal amounts and uses them for general corporate purposes.

Date of Exercise	Number of Common Shares Issued Without U.S. Registration Upon Exercise of Stock Options Under Nortel/BCE Plans	Range of Exercise Prices Canadian $
June 8, 2006	39,432	$18.02 - $58.38

The following table sets forth the total number of share units of Nortel Networks Corporation credited to accounts of Directors of the Corporation, in lieu of cash fees, under the Nortel Networks Corporation Directors' Deferred Share Compensation Plan and Nortel Networks Limited Directors' Deferred Share Compensation Plan during the second quarter of 2006. These transactions are exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

Date of Grant	Total Number of Common Share Units Acquired under Directors Deferred Share Compensation Plans	Price per Common Share (or Unit)
June 30, 2006	115,786.0553(1)	$ 2.27(2)

(1) Share units issued under the Nortel Networks Corporation Directors' Deferred Share Compensation Plan/ Nortel Networks Limited Directors' Deferred Share Compensation Plan (the "NNCDDSCP/ NNLDDSCP"). Pursuant to the NNCDDSCP/ NNLDDSCP, upon election of the director, certain fees payable to Nortel Networks Corporation ("NNC") and Nortel Networks Limited ("NNL") directors are paid in the form of NNC/ NNL share units, based upon the market price of NNC common shares at the time such NNC/ NNL share units are credited to the director' s account under the NNCDDSCP/ NNLDDSCP. On the earliest date when a director ceases to be both (i) a member of the board of directors of NNC/ NNL and (ii) employed by NNC/ NNL or its subsidiaries, NNC/ NNL will cause to be purchased on the open market, for delivery to the director, a number of NNC common shares equal to the number of NNC/ NNL share units credited to the director' s account under the NNCDDSCP/ NNLDDSCP.

(2) Represents NNC common share price of $2.54 Cdn. as converted into U.S. dollars using the noon rate of exchange of the Bank of Canada on the grant date.

ITEM 4. Submission of Matters to a Vote of Security Holders

The annual and special meeting of Nortel Networks Corporation was held on June 29, 2006.

(a) Election of Directors

The following nominees were elected by ballot as directors of Nortel:

Director	Shares Voted For	Shares Withheld (Abstained)	Broker Non-Votes
Jalynn Hamilton Bennett	2,570,511,158	169,011,689	4
Dr. Manfred Bischoff	2,579,717,343	159,805,394	4
The Hon. James Baxter Hunt, Jr.	2,580,397,810	159,125,805	4
John Alan MacNaughton	2,573,243,598	166,284,608	4
The Hon. John Paul Manley	2,370,729,246	368,502,272	4
Richard David McCormick	2,579,272,110	160,256,724	4
Claude Mongeau	2,694,804,282	56,850,810	4
Harry Jonathan Pearce	2,590,998,338	148,530,433	4
John David Watson	2,687,074,441	52,453,476	4
Mike Svetozar Zafirovski	2,691,206,400	48,322,130	4

(b) Appointment of Auditors

Deloitte & Touche LLP were appointed independent auditors of Nortel. The following were the results of the ballot conducted for the resolution to appoint Deloitte & Touche LLP as independent auditors of Nortel:

Shares Voted For	Shares Withheld (Abstained)	Broker Non-Votes
2,448,901,270	290,321,533	2,279

(c) Shareholder Rights Plan

The continuation of Nortel' s shareholder rights plan, as amended and restated by an amended and restated shareholder rights plan agreement dated as of February 28, 2006, was approved, ratified and confirmed. The following were the results of the ballot conducted for the resolution to approve the reconfirmation and amendment of Nortel' s shareholder rights plan:

Shares Voted For	Shares Voted Against	Shares Withheld (Abstained)	Broker Non-Votes
1,780,598,075	223,964,444	12,164,991	720,970,026

(d) Consolidation of Share Capital

The special resolution approving an amendment to Nortel' s restated articles of incorporation to consolidate its issued and outstanding common shares on the basis of a ratio within the range of one post-consolidation common share for every four pre-consolidation common shares to one post-consolidation common share for every ten pre-consolidation common shares, with the ratio to be selected and implemented by Nortel' s board of directors in its sole discretion, if at all, at any time prior to April 11, 2007 was approved. The following were the results of the ballot conducted for this special resolution:

Shares Voted For	Shares Voted Against	Shares Withheld (Abstained)	Broker Non-Votes
2,610,862,299	116,317,619	12,302,352	36,554

(e) Shareholder Proposals

Shareholder Proposal #1:

That the Board of Director's Executive Compensation Committee establish a pay-for-superior-performance standard in Nortel's executive compensation plan for senior executives by incorporating certain stated principles into the plan.

On a vote by ballot, shareholder proposal #1 was rejected. The following were the results of the ballot for shareholder proposal #1:

Shares Voted For	Shares Voted Against	Shares Withheld (Abstained)	Broker Non-Votes
207,787,454	1,794,154,096	16,480,846	721,074,707

Shareholder Proposal #2:

That Nortel prepare a report to shareholders by November 2006, at reasonable cost and omitting proprietary information: (1) describing Nortel's policies and management practices to promote and protect human rights in China and Tibet; and (2) that Nortel cooperate with independent human rights assessments.

On a vote by ballot, shareholder proposal #2 was rejected. The following were the results of the ballot for shareholder proposal #2:

Shares Voted For	Shares Voted Against	Shares Withheld (Abstained)	Broker Non-Votes
651,446,398	1,180,878,921	186,135,862	721,038,350

ITEM 6. EXHIBITS

Pursuant to the rules and regulations of the Securities and Exchange Commission, Nortel has filed certain agreements as exhibits to this Quarterly Report on Form 10-Q. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in Nortel' s public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe Nortel' s actual state of affairs at the date hereof and should not be relied upon.

Exhibit No.	Description
10.1	Nortel Networks Limited SUCCESS Plan as amended on March 9, 2006 with effect from January 1, 2006.
10.2	Fourth Amending Agreement to Asset Purchase Agreement dated as of May 8, 2006 among Nortel Networks Limited, Flextronics International Ltd. and Flextronics Telecom Systems, Ltd.
10.3	Fifth Amending Agreement to Asset Purchase Agreement dated as of May 8, 2006 among Nortel Networks Limited, Flextronics International Ltd. and Flextronics Telecom Systems, Ltd.
10.4**	Second Amending Agreement to Amended and Restated Master Contract Manufacturing Services Agreement dated as of May 8, 2006 between Nortel Networks Limited and Flextronics Telecom Systems, Ltd.
10.5	Second Amending Agreement to Master Repair Services Agreement dated as of May 8, 2006 between Nortel Networks Limited and Flextronics Telecom Systems, Ltd.
10.6**	Amended and Restated Letter Agreement dated as of May 8, 2006 between Nortel Networks Limited and Flextronics Telecom Systems, Ltd.
10.7*	Amendment No. 1 and Waiver dated May 9, 2006 among Nortel Networks Inc., JPMorgan Chase Bank, N.A., as Administrative Agent and Lender, and Citicorp USA, Inc., Royal Bank of Canada and Export Development Canada, as Lenders (filed as Exhibit 10.1 to Nortel Networks Corporation' s Current Report on Form 8-K dated May 11, 2006).
10.8*	Amendment No. 1 and Waiver dated May 9, 2006 between Nortel Networks Limited and Export Development Canada (filed as Exhibit 10.2 to Nortel Networks Corporation' s Current Report on Form 8-K dated May 11, 2006).
10.9*	Amendment No. 2 dated as of May 19, 2006 among Nortel Networks Inc., Nortel Networks Corporation, Nortel Networks Limited, JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto (filed as Exhibit 10.1 to Nortel Networks Corporation' s Current Report on Form 8-K dated May 19, 2006).
10.10**	Stipulation and Agreement of Settlement, dated June 20, 2006, in the matter captioned *In re Nortel Networks Corp. Securities Litigation*, United States District Court for the Southern District of New York, Consolidated Civil Action No. 01 Civ. 1855 (RMB).
10.11**	Stipulation and Agreement of Settlement, dated June 20, 2006, in the matter captioned *In re Nortel Networks Corp. Securities Litigation*, United States District Court for the Southern District of New York, Master File No. 05-MD-1659 (LAP).
10.12	Court Order, dated June 20, 2006, in the matter captioned *Frohlinger et. al. v. Nortel Networks Corporation et. al.*, Ontario Superior Court of Justice, Court File No. 02-CL-4605 (Ont.Sup.Ct.J.).
10.13	Court Order, dated June 20, 2006, in the matter captioned *Association de Protection des Épargnants et. al. Investisseurs du Québec v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No. 500-06-000126-017.
10.14	Court Order, dated June 20, 2006, in the matter captioned *Jeffery et. al. v. Nortel Networks Corporation et. al.*, Supreme Court of British Columbia, Vancouver Registry Court File No. S015159 (B.C.S.C.).
10.15	Court Order, dated June 20, 2006, in the matter captioned *Gallardi v. Nortel Networks Corporation et. al.*, Ontario Superior Court of Justice, Court File No. 05-CV-285606CP (Ont.Sup.Ct.J.).
10.16	Court Order, dated June 20, 2006, in the matter captioned *Skarstedt v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No. 500-06-000277-059.
10.17	Resolution effective June 28, 2006 for Mike Zafirovski, President and Chief Executive Officer of NNC and NNL outlining acceptance by Boards of Directors of Nortel Networks Corporation and Nortel Networks Limited of the voluntary reduction by Mr. Zafirovski of a special lifetime annual pension benefit by 29% resulting in a payout of US$355,000 per year rather than US$500,000 per year.

Exhibit No.	Description
10.18*	Amended and Restated Shareholders Rights Plan Agreement dated as of February 28, 2006 effective June 29, 2006, pursuant to an amended and restated shareholder rights plan agreement dated as of February 28, 2006 between Nortel Networks Corporation and Computershare Trust Company of Canada, as Rights Agent (filed as Exhibit 3 to Nortel Networks Corporation' s Form 8-A12B/A dated June 29, 2006).
10.19*	Indenture dated as of July 5, 2006 among Nortel Networks Limited, Nortel Networks Corporation, Nortel Networks Inc. and The Bank of New York, as trustee (filed as Exhibit 4.1 to Nortel Networks Corporation' s Current Report on Form 8-K dated July 6, 2006).
10.20*	First Supplemental Indenture dated as of July 5, 2006 among Nortel Networks Limited, Nortel Networks Corporation, Nortel Networks Inc. and The Bank of New York, as trustee (filed as Exhibit 4.2 to Nortel Networks Corporation' s Current Report on Form 8-K dated July 6, 2006).
10.21*	Purchase Agreement dated June 29, 2006 among Nortel Networks Limited, Nortel Networks Corporation, Nortel Networks Inc. and the representative of the initial purchasers with regards to U.S.$1,000,000,000 Floating Rate Senior Notes due 2011, U.S.$550,000,000 10.125% Senior Notes due 2013, U.S.$450,000,000 10.750% Senior Notes due 2016 (filed as Exhibit 10.1 to Nortel Networks Corporation' s Current Report on Form 8-K dated July 6, 2006).
10.22*	Registration Rights Agreement dated July 5, 2006 among Nortel Networks Limited, Nortel Networks Corporation, Nortel Networks Inc. and the representative of the initial purchasers with regards to U.S.$1,000,000,000 Floating Rate Senior Notes due 2011, U.S.$550,000,000 10.125% Senior Notes due 2013, U.S.$450,000,000 10.750% Senior Notes due 2016 (filed as Exhibit 10.2 to Nortel Networks Corporation' s Current Report on Form 8-K dated July 6, 2006).
31.1	Certification of the Vice-Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Executive Vice-President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of the Vice-Chairman and Chief Executive Officer and Executive Vice-President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference.

** Certain portions of this Exhibit have been omitted based upon a request for confidential treatment. These portions have been filed separately with the United States Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTEL NETWORKS CORPORATION
(Registrant)

Chief Financial Officer	Chief Accounting Officer
/s/ Peter W. Currie	/s/ Paul W. Karr
Peter W. Currie Executive Vice-President and Chief Financial Officer	Paul W. Karr Controller

Date: August 2, 2006

Exhibit 10.1

Nortel Networks Limited SUCCESS Incentive Plan

Section 1: Introduction

The Nortel Networks Limited SUCCESS Incentive Plan (the "SUCCESS Plan") is a short-term, incentive bonus plan that provides the potential for "Eligible Employees" (as defined below) to receive cash awards based on their contributions to the success of the "Company"[1], conditioned on the Company meeting its objectives.

The SUCCESS Plan is intended to drive business performance and customer and shareholder value by rewarding Eligible Employees for their contributions to the Company' s overall success. An Eligible Employee' s contribution is determined by two factors: (1) the impact of that employee' s role on business results and (2) that employee' s achievement of individual performance objectives during the employee' s active service with the Company. The actual award received by an Eligible Employee will reflect (1) an employee' s job scope, complexity, and responsibilities, and that employee' s contribution and achievement, during the Plan Period[2] and (2) the Company' s performance as indicated by the Nortel Performance Factor (the "Nortel Performance Factor").

Section 2: SUCCESS Plan Eligibility

Generally, regular full-time and regular part-time[3] Company employees are eligible to participate in the SUCCESS Plan ("Eligible Employees"), subject to the following:

(1) Eligible employees who participate in other incentive plans for a full calendar month or the greater portion of a month, as determined by the Company, are not eligible to participate in the SUCCESS Plan during that calendar month. For purposes of this document, "other incentive plans" mean sales incentive compensation or any other incentive/bonus arrangements which the Company determines have been offered in lieu of the SUCCESS Plan;

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1 For purposes of the SUCCESS Plan, the "Company" is defined as Nortel Networks Limited and its subsidiaries and affiliates and other entities, which it controls directly or indirectly and which have been approved for participation in the SUCCESS Plan by the person holding the most senior position responsible for human resources or the equivalent at the Company as identified by the CHRC (the "Senior Vice-President, HR").

2 Each calendar year consists of one Plan Period– from January 1 through December 31. The Plan Period(s) for each calendar year may be changed by the CHRC (as defined in Section 2) and Board of Directors (as defined in Section 2) at any time.

3 For purposes of the SUCCESS Plan, regular full-time and regular part-time Company employees are those employees who are eligible for participation in the Company health benefit plans based on their regularly scheduled hours.

(2) Subject to applicable law, employees who are covered under a collective labor agreement are not eligible unless that collective labor agreement provides for their participation in the SUCCESS Plan;

(3) Individuals determined by the Company to be students, co-op students, interns, temporary[4], or non-payroll workers are ineligible for the SUCCESS Plan;

(4) The Compensation and Human Resources Committee of the Boards of Directors of Nortel Networks Corporation and Nortel Networks Limited ("CHRC") and the Board of Directors of Nortel Networks Limited (the "Board of Directors") may determine that certain Company employees (including employees who are not otherwise eligible for the SUCCESS Plan) may be eligible to receive an award from a Discretionary Bonus Pool created pursuant to Section 5 hereof;

(5) Subject to applicable law, to be eligible for either a full or pro-rated award for any given Plan Period: (a) an employee must have been actively employed in a role that is eligible under the SUCCESS Plan or other incentive plan ("Incentive Eligible Role") for at least three full calendar months in that Plan Period[5] and (b) the employee must have been an employee in an Incentive Eligible Role on or before October 1 of that Plan Period[6]. For purposes of this document, an employee will be considered to be "actively employed" for any calendar month in which the employee actually works for at least one day or as otherwise required under applicable contract or law. Notwithstanding the foregoing and subject to applicable law, employees whose employment terminates before December 31 of a Plan Period are not eligible to receive a SUCCESS Plan award for that Plan Period.

(6) Pro-rated awards may be made to employees who transfer into or out of positions covered by other incentive plans, move from or to a job that is ineligible for the SUCCESS Plan or who are on a Company approved leave of absence or on "notice" of termination of employment for part of the Plan Period, provided that the employee meets the other SUCCESS Plan requirements set out above. However, subject to applicable law, an employee is not eligible for a SUCCESS Plan payout for any calendar month in which the employee is not actively employed in a position eligible under the SUCCESS Plan. If an employee meets the above

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4 Where legally required, temporary full time employees on fixed term contracts with the Company may be included as Eligible Employees subject to the other conditions in Section 2 of the Plan.

5 The required period of active employment may be changed by the CHRC and Board of Directors at any time.

6 The dates on which an employee must be employed in an Incentive Eligible Role may be changed by the CHRC and Board of Directors at any time.

SUCCESS Plan requirements, but is actively employed in a position that is eligible under the SUCCESS Plan for less than the full Plan Period, the employee' s SUCCESS award will be based on the number of months the employee is actively employed in a SUCCESS Plan eligible position divided by the number of months in the Plan Period, with the following exception. For purposes of determining the amount of a pro-rata SUCCESS award, an employee will not be considered to be actively employed in SUCCESS Plan eligible position in a calendar month in which (a) the employee participates in another incentive plan for that full calendar month or (b) the employee participates in another incentive plan for the greater portion of the month, each as determined by the Company.

(7) Employees who meet all of the SUCCESS Plan eligibility requirements, but who leave employment with the Company between the end of the Plan Period and the related payment date for the award, other than for reasons determined by the Company to be related to inappropriate actions, misconduct, dismissal for cause (where applicable) or unsatisfactory performance, will be eligible for an award for the applicable Plan Period;

(8) An employee' s Management Team[7] has the right, in consultation with the relevant Human Resources Business prime, to make limited exceptions to the 'actively employed' requirements set out in Section 2(5) and (6) above where required by law or where the Management Team determines that circumstances clearly warrant an exception. Exceptional circumstances might include approved leaves where warranted by applicable law (e.g. maternity, paternity, parental, military, family, or medical), disability, outsourcing, divestiture, or death. In such situations, if the employee has, while actively employed in a SUCCESS Plan eligible position, substantially achieved his/her individual objectives, the employee' s Management Team may grant partial awards. If awards are paid in these circumstances, the awards will be pro-rated to reflect the number of months the employee was actively employed in a SUCCESS Plan eligible position, as defined in Section 2(5) above, and will be commensurate with the employee' s contribution and achievement. Notwithstanding anything in the foregoing to the contrary, nothing in the SUCCESS Plan shall preclude the Company paying an employee an award under the SUCCESS Plan for more than the number of months the employee was actively employed in a SUCCESS Plan eligible position pursuant to that individual employee' s employment termination agreement, which the Senior Vice-President, HR has approved; and

(9) Company affiliates and joint ventures may choose to offer the SUCCESS Plan or a similar plan subject to the approval of the Senior Vice-President, HR.

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7 The "Management Team" consists of the managers with whom the employee has a direct or indirect reporting relationship as set out in the Organization Structure Manager ("OSM") or its equivalent as maintained by the Company from time to time.

Section 3: Award Elements

An Eligible Employee' s cash award for a Plan Period under the SUCCESS Plan will be based on the following formula:

100%[8] of Annual Base Salary x (# Months actively employed in SUCCESS eligible position / # Months in Plan Period) ["Pro-Ration Factor"] x Award % x Nortel Performance Factor.

Annual Base Salary means the annualized regular compensation paid to an Eligible Employee, excluding any other compensation, such as, but not limited to, bonuses, commissions, overtime, and relocation benefits. The Annual Base Salary for these purposes will be measured for all Eligible Employees at a uniform time on or after October 1st of the applicable Plan Period to be determined in the sole discretion of the Senior Vice-President, HR.

Award % is the percentage of Annual Base Salary that is used to compute the SUCCESS Plan award for each Eligible Employee. For Job Complexity Indicator ("JCI") 1-6, the Award % ranges from 0% to 40% of Annual Base Salary. For JCI 55, the Award % ranges from 0% to 400% of Annual Base Salary. The JCI level for these purposes will be measured concurrently with Annual Base Salary as described above. For each JCI, the Senior Vice-President, HR may set a suggested narrower award range, intended to reflect a market trend to give certain Eligible Employees with higher levels of responsibility a higher incentive potential as a percentage of Annual Base Salary. Within the ranges approved by the CHRC and the Board of Directors, an Eligible Employee' s Management Team will determine the recommended Award % for that employee for each Plan Period based on the employee' s job scope, complexity and responsibilities and the employees' contributions and achievements during the Plan Period. An Eligible Employee' s recommended Award % is subject to review, modification and approval by the Senior Management Team as provided in Section 4.[9]

The total SUCCESS Plan award for all Eligible Employees for a Plan Period (reflecting the Nortel Performance Factor) is recommended by the Senior Management Team for approval by the CHRC and the Board of Directors after the end of the Plan Period.

Nortel Performance Factor is calculated based on the achievement by the Company of key corporate objectives for the Plan Period. The objectives are approved by the CHRC and the Board of Directors for each Plan Period. The Nortel Performance Factor may be based on one or more performance metrics, each with specific targets. The performance metrics may have equal or different weightings. Performance metrics are the general

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8 The percentage of Annual Base Salary that is applied to the formula may be changed by the CHRC and Board of Directors at any time.

9 For purposes of the SUCCESS Plan only, the "Senior Management Team" shall consist of the President and Chief Executive Officer, the Chief Financial Officer and the Senior Vice-President, HR of Nortel Networks Limited.

corporate goals for the Plan Period, such as profitability, market momentum, or customer loyalty. Targets shall be based on objective and/or subjective criteria established to measure, directly or indirectly, the performance metrics. Weightings shall be the relative weight or percentage accorded in the Nortel Performance Factor for achieving each specific target. After approval by the CHRC and the Board of Directors, the Company' s objectives for the Plan Period will be communicated to Eligible Employees. The Nortel Performance Factor is deemed to be 1.0 (achievement) throughout the Plan Period and is then adjusted by the CHRC and the Board of Directors based on their determination of corporate performance. The President and Chief Executive Officer may, in his sole discretion, recommend to the CHRC and the Board of Directors that the Nortel Performance Factor be adjusted with respect to certain business units, JCI levels or any other groups of employees and the CHRC and the Board can approve such adjustment to the Nortel Performance Factor, in their sole discretion, based on additional factors that the President/CEO and the CHRC and Board determine in their sole discretion are relevant to the award including without limitation, collective relative contribution to achievement of the key Company objectives during the Plan Period.

Section 4: SUCCESS Plan Awards

Awards for each Plan Period are calculated based on 100%[10] of an Eligible Employee' s Annual Base Salary, the Pro-Ration Factor, the Eligible Employee' s Award % (which reflects the employee' s job scope, complexity and responsibilities, and that employee' s contribution and achievement, during the Plan Period), and the Nortel Performance Factor (that is, the Company' s business performance for the Plan Period as determined by the CHRC and the Board of Directors). When warranted, cash awards will be made as soon as practicable following the close of the applicable Plan Period and the calculation of any award.

Any award under the SUCCESS Plan to an Eligible Employee is subject to the discretion of the Eligible Employee' s Management Team and Senior Management Team and the CHRC and the Board of Directors. That is, an Eligible Employee' s Management Team determines, in its discretion, the Award % for an Eligible Employee subject to review, modification and approval by the Senior Management Team. Specifically, the Senior Management Team reserves the right, in its discretion, to review and adjust Eligible Employees' Award percentages, which are assigned to those Eligible Employees by their Management Team to reflect its assessment of the employees' contributions to the business or the achievement of the Company' s key objectives, as well as to ensure that the final payouts, if any, are within appropriate budgetary guidelines. The CHRC and the Board of Directors determine, in their discretion, the achievement of the targets for the performance metrics and the final calculation of the Nortel Performance Factor (which may include a determination of a Nortel Performance Factor of zero, even if certain of the performance metrics targets are achieved, and/or an adjustment to the relative weighting of the performance metrics.) During the Plan Period, the CHRC and the Board of Directors can review Company objectives, performance measures, weightings, and

10 The percentage of Annual Base Salary that is applied to the formula may be changed by the CHRC and Board of Directors at any time.

targets to determine whether they remain appropriate. The CHRC and the Board of Directors may, at their sole discretion, adjust the Company objectives, performance measures, weightings, targets, and/or plan payouts for the Plan Period, as they deem necessary, to reflect changes in business conditions or other circumstances.

SUCCESS Plan awards are considered income and are therefore subject to national, state/provincial, and/or local taxes. All appropriate taxes and other withholdings will be deducted from any such awards and payments as required by applicable law.

Depending on local laws and policies, SUCCESS Plan awards may have an impact on some benefits and may or may not be included in the "eligible earnings" for purposes of capital accumulation and retirement plans offered in the various regions by the Company. Where appropriate, deductions may be made from SUCCESS Plan awards in accordance with the specific capital accumulation and retirement plan in which the Eligible Employee participates.

Section 5: **Discretionary Bonus Pool**

During a Plan Period, the CHRC and the Board of Directors may consider the creation of a separate Discretionary Bonus Pool under the SUCCESS Plan to provide discretionary, incremental bonus awards. These awards may be made to all employees of the Company or employees of the Company who individually or in groups made a relative contribution that significantly added to the overall success of the Company, whether or not the employees are eligible to participate in the SUCCESS Plan under the criteria set out in Section 2 of this document. The determination that a Company employee is eligible for a Discretionary Bonus Pool award does not otherwise entitle that employee to generally participate in the SUCCESS Plan. The CHRC and the Board of Directors have complete discretion to determine: the establishment of the Discretionary Bonus Pool; the eligibility criteria for participation; any performance metrics, weightings and targets; the achievement, if any, of the targets for the performance metrics; and the amount of the awards, if any, paid from the Discretionary Bonus Pool. Whether or not an Eligible Employee receives a SUCCESS Plan award shall have no effect on that employee' s eligibility to receive a Discretionary Bonus Pool award.

Discretionary Bonus Pool awards will be considered income and therefore subject to national, state/provincial, and/or local taxes. All appropriate taxes and other withholdings will be deducted from the award as required by applicable law.

Depending on local laws and policies, Discretionary Bonus Pool awards may have an impact on some benefits and may or may not be included in the "eligible earnings" for purposes of capital accumulation and retirement plans offered in the various regions by the Company. Where appropriate, deductions may be made from the Discretionary Bonus Pool awards in accordance with the specific capital accumulation and retirement plan in which the employee participates.

Section 6: Interpretations and Amendments

This document, as amended from time to time, constitutes the "Nortel Networks Limited SUCCESS Incentive Plan". In the event of any conflicts or inconsistencies between the provisions of the SUCCESS Plan and any other document or communication, written or oral, concerning the SUCCESS Plan, the provisions of this document, as amended from time to time, shall govern.

The Senior Vice-President, HR, subject to approval of the CHRC and the Board of Directors in certain cases shall interpret the provisions of the SUCCESS Plan, which shall be final and binding on the Company and all SUCCESS Plan participants. This document is also subject to interpretation to comply with applicable laws. It is not and shall not be construed as either an employment contract or as a contract concerning the subject matter contained herein. There is no guarantee that any award under the SUCCESS Plan will actually be paid. Any award is determined at the discretion of an Eligible Employee' s Management Team, the Senior Management Team and the CHRC and the Board of Directors, as the case may be. If such awards, however, are paid, they shall be determined and paid in accordance with the provisions herein.

The SUCCESS Plan can only be terminated or amended by the Board of Directors, which shall have the full authority, at any time, to terminate the SUCCESS Plan or to delete, modify and/or add to any and all terms, conditions, and provisions of the SUCCESS Plan.

As adopted by the Board of Directors of Nortel Networks Limited on July 25, 2002, as amended on January 23, 2003 with effect from January 1, 2003, as amended on July 28, 2003 with effect from January 1, 2003, as amended on February 26, 2004 with effect from January 1, 2004, as amended on March 9, 2006 with effect from January 1, 2006.

Exhibit 10.2

NORTEL NETWORKS LIMITED

as Seller

and

FLEXTRONICS TELECOM SYSTEMS LTD.

as Purchaser

FOURTH AMENDING AGREEMENT TO ASSET PURCHASE AGREEMENT

May 8, 2006

Stikeman Elliott LLP

FOURTH AMENDING AGREEMENT
TO ASSET PURCHASE AGREEMENT

THIS FOURTH AMENDING AGREEMENT TO ASSET PURCHASE AGREEMENT is made as of the 8th day of May, 2006 (the "**Amending Agreement**") by and among Flextronics Telecom Systems Ltd., a Mauritius corporation (**"Purchaser"**), Flextronics International Ltd., a Singapore corporation acting through its Hong Kong office (the **"Guarantor"**) and Nortel Networks Limited, a Canadian corporation (**"Seller"**).

WHEREAS the Purchaser, the Seller and the Guarantor (collectively the "**Asset Purchase Agreement Parties**") entered into an Asset Purchase Agreement dated as of June 29, 2004, whereby the Seller agreed to sell, and the Purchaser agreed to purchase, or cause the Designated Purchasers to purchase, as the case may be, the Assets related to the Operations (the "**Purchase Agreement**");

AND WHEREAS the Asset Purchase Agreement Parties entered into an amending agreement dated as of the 1st day of November, 2004 (the "**First Amending Agreement**"), whereby the Parties amended certain terms and conditions of the Purchase Agreement and certain of the Transaction Documents;

AND WHEREAS the Asset Purchase Agreement Parties entered into a second amending agreement dated as of the 7th day of February, 2005 (the "**Second Amending Agreement**"), whereby the Parties amended certain terms and conditions of the Purchase Agreement and certain of the Transaction Documents;

AND WHEREAS the Asset Purchase Agreement Parties entered into a third amending agreement dated as of the 22nd day of August, 2005 (the "**Third Amending Agreement**"), whereby the Parties amended certain terms and conditions of the Purchase Agreement and certain of the Transaction Documents;

AND WHEREAS the Purchaser and Nortel Networks U.K. Limited completed as of the 1st day of November, 2004 the Facility/Design Closing pertaining to the Design Operations carried on by the UK Design Employees ("**UK Design Closing**");

AND WHEREAS the Purchaser, Seller and Nortel Networks Technology Corporation completed as of the 1st day of November, 2004 the Facility/Design

Closing pertaining to the Design Operations carried on by the Canada Design Employees at the Ottawa Lab 2/Lab 10 Facility ("**Canada Design Closing**");

AND WHEREAS the Purchaser and the Seller completed as of the 7th day of February, 2005 the Facility/Design Closing for the Montreal BAN 1 Facility and the Montreal BAN 3 Facility (the "**Montreal Closing**");

AND WHEREAS the Purchaser and the Seller completed as of the 22nd day of August, 2005 the Facility/Design Closing for the Chateaudun Facility (the "**Chateaudun Closing**"); and

AND WHEREAS the Asset Purchase Agreement Parties have further agreed to amend certain additional terms and conditions of the Purchase Agreement and certain of the Transaction Documents in accordance with the provisions of this Amending Agreement;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the sufficiency and receipt of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

Section 1.1 **Capitalized Terms and Section References**.

All capitalized terms unless otherwise defined herein shall have the meaning ascribed thereto in the Purchase Agreement, and all section references unless otherwise specified shall refer to the Purchase Agreement.

ARTICLE 2
MONKSTOWN

Section 2.1 **Retention of the Monkstown Facility**. Seller has decided to retain the systems assembly and test Operations carried on at the Monkstown Facility. Seller and Purchaser agree that, notwithstanding anything to the contrary in the Purchase Agreement, there will not be any further Facility / Design Closing with respect to the Monkstown Facility.

ARTICLE 3
AMENDMENTS TO THE PURCHASE AGREEMENT

Section 3.1 **Payment of the Purchase Price**. Section 2.3(3) of the Purchase Agreement is hereby deleted and replaced in its entirety by the following:

"Subject to the provisions of Section 2.3(2), at each Facility/Design Closing, the relevant Designated Purchaser shall pay by wire transfer, to the Seller or applicable Designated Seller as the case may be, an amount equal to twenty-five percent (25%) of (i) the applicable Facility/Design Estimated Net Assets Value, plus (ii) the applicable Cash Flow Payment Amount referenced for such Facility/Design Closing in Schedule 2.3(2) (collectively the "Initial Payment"). Thereafter, subject to appropriate adjustments to the Facility/Design Purchase Price for each Facility/Design Closing pursuant to the provisions of Section 2.4, Section 7.2 and Section 7.3, the Purchaser shall pay, or cause to be paid, to Seller (which Seller will accept on behalf of itself and/or the relevant Designated Seller) the amount of (i) the applicable Facility/Design Estimated Net Assets Value, plus (ii) the applicable Cash Flow Payment Amount referenced for such Facility/Design Closing in Schedule 2.3(2), less the Initial Payment (the "Remaining Closing Amount") in three (3) equal instalments according to the following payment schedule:

Payment Amount	Payment Due Date
1/3 of Remaining Closing Amount	the first day of the third month after the Applicable Closing Date
1/3 of Remaining Closing Amount	the first day of the sixth month after the Applicable Closing Date
1/3 of Remaining Closing Amount	the first day of the ninth month after the Applicable Closing Date

Notwithstanding the above, with respect to the Facility/Design Closing for the Chateaudun Facility (the "**Chateaudun Closing**") only:

(1) at the Chateaudun Closing, Purchaser or the relevant Designated Purchaser shall pay, or cause to be paid, by wire transfer, to the Seller or applicable Designated Seller as the case may be, an amount equal to (i) the full amount of the price of the real estate as set forth in the notarial deed, and (ii) two thirds (2/3) of the sum of the applicable Facility/Design Estimated Net Assets Value, less US$2 million and (iii)

$25,000,000 of the applicable Cash Flow Payment Amount referenced for such Facility/Design Closing set forth in Schedule 2.3(2);

(2) Seller or the relevant Designated Seller shall pay to Purchaser or the relevant Designated Purchaser $5,025,000 (plus any applicable VAT) of the Transition Payment applicable to the Chateaudun Closing set forth in Schedule 2.3(2); and

(3) All amounts remaining due by Purchaser or the relevant Designated Purchaser in respect of the Chateaudun Closing, including the remaining $12,500,000 Cash Flow payment, shall be paid on November 21, 2005.

Notwithstanding the above, with respect to the Facility/Design Closing for the Calgary Westwinds Facility (the "**Calgary Closing**") only:

(1) at the Calgary Closing, Purchaser or the relevant Designated Purchaser shall pay, or cause to be paid, by wire transfer, to the Seller or applicable Designated Seller as the case may be, an amount equal to (i) one third (1/3) of the sum of the applicable Facility/ Design Estimated Net Assets Value and (ii) $16,666,666.66 of applicable Cash Flow Payment Amount referenced for such Facility/ Design Closing set forth in Schedule 2.3(2);

(2) on August 1, 2006, Purchaser or the relevant Designated Purchaser shall pay to Seller or the relevant Designated Seller (i) one third (1/3) of the sum of the applicable Facility/Design Estimated Net Assets Value and (ii) $16,666,666.67 of applicable Cash Flow Payment Amount referenced for such Facility/Design Closing set forth in Schedule 2.3(2); and

(3) on November 1, 2006, Purchaser or the relevant Designated Purchaser shall pay to Seller or the relevant Designated Seller (i) one third (1/3) of the sum of the applicable Facility/Design Estimated Net Assets Value and (ii) $29,166,666.67 of applicable Cash Flow Payment Amount referenced for such Facility/Design Closing set forth in Schedule 2.3(2).

The obligation to pay each Remaining Closing Amount in respect of each Facility/Design Closing shall be evidenced by a Promissory Note; *provided however*, that with respect to the Chateaudun Closing the Seller hereby waives such requirement for a Promissory Note.

All payments made pursuant to this Section 2.3(3) shall be made in the currency referenced in the applicable VSHA, or otherwise in United States dollars; *provided, however*, that payments made pursuant to the France Bill of Sale shall be made in United States Dollars.

Notwithstanding the above, the amount of each outstanding quarterly payment for each Facility/Design Closing will be adjusted up or down, as the case may be, to reflect any adjustments to the Facility/Design Purchase Price, if any, required pursuant to the provisions of Section 2.4, Section 7.2 and Section 7.3 of this Agreement; *provided, however*, that the amount paid for the Chateaudun Facility shall not be subject to adjustment."

Section 3.2 **Cash Flow and Transition Payments Schedule**. Schedule 2.3.2 is hereby deleted in its entirety and replaced with the attached Schedule 2.3.2.

Section 3.3 **Allocation of Purchase Price**. Schedule 1.1 is hereby deleted in its entirety and replaced with the attached Schedule 1.1.

Section 3.4 **Amended and Restated Transaction Documents.**

All references to any Transaction Document in the Purchase Agreement shall be to that agreement, as amended by the parties from time to time.

ARTICLE 4
FULL FORCE

Section 4.1 **Full Force and Effect.**

Other than for the foregoing amendments, the Purchase Agreement and certain schedules thereto, all other agreements agreed to or entered into as of June 29, 2004, the First Amending Agreement, the Second Amending Agreement and the Third Amending Agreement shall remain in full force and effect, unamended.

ARTICLE 5
GOVERNING LAW

This Amending Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF the parties hereto have duly executed this Fourth Amending Agreement as of the day, month and year first above written.

FLEXTRONICS TELECOM SYSTEMS LTD.

By: /s/ M. Marimuthu
Name: Manny Marimuthu
Title: Authorized Signatory

NORTEL NETWORKS LIMITED

By: /s/ J. Joel Hackney
Name: Joel Hackney
Title: Senior Vice-President, Global Supply Chain and Quality

FLEXTRONICS INTERNATIONAL LTD., acting through its Hong Kong branch

By: /s/ M. Marimuthu
Name: Manny Marimuthu
Title: Authorized Signatory

Schedule 2.3(2)

Operation	Cash Flow Payment Corresponding to Timing of Transfer of Operation	Transition Expense Payment Corresponding to Timing of Transfer of Operation*
Ottawa Design	$ 25,000,000	$ 5,025,000
Monkstown Design	$ 25,000,000	$ 5,025,000
St Laurent Systems House	$ 50,000,000	$ 10,050,000
Calgary Systems House	$ 62,500,000	$ 12,562,500
Chateaudun Systems House	$ 37,500,000	$ 7,537,500

* All Transition Payments are paid in equal quarterly installments at the same time as the quarterly installments of Cash Flow Payments for the referenced Facility/Design Closing, except that:

(i) with respect to the Montreal Systems House, payment shall be made in equal instalments as follows:

(a) the first $2,512,500 shall be paid on the date of the Facility / Design Closing for the Ottawa and Monkstown Design Operations;

(b) the second $2,512,500 shall be paid on the date of the Facility / Design Closing for the Montreal Facility; and

(c) the remaining two payments of $2,512,500 shall be paid on, respectively, the 1st day of the third month following the Closing and the 1st day of the sixth month following the Closing.

(ii) the Transition Payment referenced for the Calgary Systems House shall be paid in five equal instalments, as follows:

(a) the first $2,512,500, will be prepaid at the closing for the Montreal (St Laurent) Systems House,

(b) the next three payments of $2,512,500 shall be paid on, respectively, the 1st day of the third month following the Montreal Closing, the 1st day of the sixth month following the Montreal Closing and the 1st day of the nineth month following the Montreal Closing, and

(c) the final payment of $2,512,500 shall be made at the same time as the final Cash Flow Payment for the Calgary Closing is paid by Purchaser or a Designated Purchaser.

(iii) $5,025,000 of the Chateaudun Systems House Transition Payment shall be paid at the Chateaudun Systems House Facility Design Closing and the remaining $2,512,500 shall be paid on November 21, 2005.

Exhibit 10.3

NORTEL NETWORKS LIMITED

as Seller

and

FLEXTRONICS TELECOM SYSTEMS LTD.

as Purchaser

FIFTH AMENDING AGREEMENT TO ASSET PURCHASE AGREEMENT

May 8, 2006

Stikeman Elliott LLP

FIFTH AMENDING AGREEMENT
TO ASSET PURCHASE AGREEMENT

THIS FIFTH AMENDING AGREEMENT TO ASSET PURCHASE AGREEMENT is made as of the 8th day of May, 2008 ("**Amending Agreement**") by and among Flextronics Telecom Systems Ltd., a Mauritius corporation ("**Purchaser**"), Flextronics International Ltd., a Singapore corporation acting through its Hong Kong office (the "**Guarantor**") and Nortel Networks Limited, a Canadian corporation ("**Seller**").

WHEREAS the Purchase, the Seller and the Guarantor (collectively the "**Asset Purchase Agreement Parties**") entered into an Asset Purchase Agreement dated as of June 29, 2004, whereby the Seller agreed to sell, or cause the Designated Sellers to sell, as the case may be, and the Purchaser agreed to purchase, or cause the Designated Purchasers to purchase, as the case may be, the Assets related to the Operations (the "**Purchase Agreement**");

AND WHEREAS the Asset Purchase Agreement Parties entered into an amending agreement dated as of the 1st day of November, 2004 (the "**First Amending Agreement**"), whereby the Parties amended certain terms and conditions of the Purchase Agreement and certain of the Transaction Documents;

AND WHEREAS the Asset Purchase Agreement Parties entered into a second amending agreement dated as of the 7th day of February, 2005 (the "**Second Amending Agreement**"), whereby the Parties amended certain terms and conditions of the Purchase Agreement and certain of the Transaction Documents;

AND WHEREAS the Asset Purchase Agreement Parties entered into a third amending agreement dated as of the 22nd day of August, 2005 (the "**Third Amending Agreement**"), whereby the Parties amended certain terms and conditions of the Purchase Agreement and certain of the Transaction Documents;

AND WHEREAS immediately prior to the execution of this Agreement the Asset Purchase Agreement Parties entered into a fourth amending agreement dated as of the 8th day of May, 2006 (the "**Fourth Amending Agreement**"), whereby the Parties amended certain terms and conditions of the Purchase Agreement and certain of the Transaction Documents;

AND WHEREAS the Purchaser and Nortel Networks U.K. Limited completed as of the 1st day of November, 2004 the Facility/Design Closing pertaining to the Design Operations carried on by the UK Design Employees;

AND WHEREAS the Purchaser, Seller and Nortel Networks Technology Corporation completed as of the 1st day of November, 2004 the Facility/Design Closing pertaining to the Design Operations carried on by the Canada Design Employees at the Ottawa Lab 2/Lab 10 Facility;

AND WHEREAS the Purchaser and the Seller completed as of the 7th day of February, 2005 the Facility/Design Closing for the Montreal Ban 1 Facility and the Montreal Ban 3 Facility;

AND WHEREAS the Purchaser and the Seller completed as of the 22nd day of August, 2005 the Facility/Design Closing for the Chateaudun Facility (the "**Chateaudun Closing**");

AND WHEREAS the Asset Purchase Agreement Parties agreed that the Seller shall retain, and the Purchaser shall not purchase, the Monkstown Facilities and entered into the Fourth Amending Agreement to reflect such agreement; and

AND WHEREAS the Asset Purchase Agreement Parties have agreed to complete the Closing for the Calgary Westwinds Facility on May 8, 2006 (the "**Calgary Closing**"), and have agreed to enter into this Amending Agreement concurrently with this transaction; and

AND WHEREAS the Asset Purchase Agreement Parties have further agreed to amend certain additional terms and conditions of the Purchase Agreement and certain of the Transaction Documents in accordance with the provisions of this Amending Agreement;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the sufficiency and receipt of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

Section 1.1 Capitalized Terms and Section References.

All capitalized terms unless otherwise defined herein shall have the meaning ascribed thereto in the Purchase Agreement, and all section references unless otherwise specified shall refer to the Purchase Agreement.

ARTICLE 2
EMPLOYMENT OFFERS BY AFFILIATES OF THE PURCHASER TO ALBERTA EMPLOYEES AND U.S. EMPLOYEES

Section 2.1 Alberta Employees

The parties hereby acknowledge that for purposes of Exhibits D-3 and D-3A, and the schedules thereto, the term "Designated Purchaser", insofar as it relates to the Alberta Employees, shall refer to Flextronics (Canada) Inc.

Section 2.2 U.S. Employees

The parties hereby acknowledge that for the purposes of Exhibit D-9, D-9A and D-9B, and the schedules thereto, the term "Designated Purchaser" refers to Flextronics International U.S.A., Inc.

ARTICLE 3
AMENDMENTS TO THE PURCHASE AGREEMENT

Section 3.1 Leased PC Equipment

Pursuant to Section 2.6 of the Asset Purchase Agreement, the Seller and Purchaser agreed to certain matters regarding Leased PC Equipment. Subsequent to the Chateaudun Closing the Seller revised its agreement with the vendor that provided the desktop and other PC support, and the Seller purchased from that vendor the equipment that was formerly Leased PC Equipment. In order to reflect this change, the following is hereby inserted after Section 2.6:

"**Section 2.6A Certain Personal Computers.** With respect to any Facility / Design Closing which occurs after December 31, 2005, the Parties hereby agree as follows:

(1) Seller or the Designated Seller now own certain of the PCs and ancillary equipment used by the Employees in the Operations which were previously leased (collectively, the "**Previously Leased PC Equipment**"). The Parties agree that, in accordance with the specific terms of this Section 2.6A, these PCs and ancillary equipment form part of the Facility/Design Assets. The temporary use by the Purchaser and the Designated Purchaser, as the case may be, following the applicable Closing Date of Previously Leased PC Equipment shall be governed by the Shared Services Agreement.

(2) The Parties acknowledge the Purchaser and its Affiliates may, but shall not be obligated to purchase such equipment from the

Seller or the Designated Seller, as the case may be, following the expiry of the Shared Services Agreement.

(3) Schedule 2.6A lists and separately identifies each piece of Previously Leased PC Equipment used in the Operations. No later than (30) days prior to the termination of the applicable "SSA Period" (as that term is defined in the Shared Services Agreement), the Purchaser shall be entitled to request to purchase such equipment. The Seller will notify the Purchaser of the proposed transfer date (the "**Transfer Date**") and the value (the "**Transfer Value**"), which amount shall be the Seller' s or Designated Seller' s, as the case may be, net book value of each item of such equipment as of the Transfer Date. Upon receipt of such notification, the Purchaser or relevant Designated Purchasers shall promptly advise the Seller whether it wishes to purchase the Previously Leased PC Equipment and, if it wishes to make such a purchase, upon receipt of a bill of sale from the Seller evidencing transfer of title of such Previously Leased PC Equipment, the Purchaser agrees to pay to the Seller as agent for the relevant Designated Seller on the relevant Transfer Date, (in immediately available funds in United States Dollars), the Transfer Value of the Previously Leased PC Equipment being transferred (and any applicable Transfer Taxes), in which case such equipment shall be deemed to be Owned Equipment and transferred pursuant to the terms of this Agreement as part of the transfer of the Facility/Design Assets for the applicable Facility or the Design Operations, as the case may be."

ARTICLE 4
DELIVERED AND REVISED SCHEDULES AND EXHIBITS

Section 4.1 Delivered Schedules to the Purchase Agreement.

In relation to the Calgary Closing and pursuant to Section 5.1(3) of the Purchase Agreement, the Parties hereby acknowledge delivery by the Seller or Purchaser, as the case may be, and acceptance by the Seller or Purchaser, as the case may be, of the delivered schedules attached to this Amending Agreement as Exhibit "A". For greater certainty, these schedules are provided only in relation to the Calgary Closing.

Section 4.2 List of Delivered Schedules.

The schedules delivered pursuant to Section 4.1 of this Agreement are listed on Exhibit "B".

Section 4.3 Exhibits to the Nortel Proprietary Software License Agreement.

The complete list of Nortel Business Software Applications, which is Exhibit A to the Nortel Proprietary Software License Agreement, is attached as Exhibit "C" hereto.

ARTICLE 5
FULL FORCE

Section 5.1 Full Force and Effect.

Other than for the foregoing amendments and for the correction set forth in Section 5.2 below, the Purchase Agreement and certain schedules thereto, all other agreements agreed to or entered into as of June 29, 2004, the First Amending Agreement, the Second Amending Agreement, the Third Amending Agreement and the Fourth Amending Agreement shall remain in full force and effect, unamended.

Section 5.2 Correction to Prior Amending Agreements.

Article 6 of each of the Second Amending Agreement and the Third Amending Agreement are hereby amended to delete the word "Ontario" and replace it with "Alberta".

ARTICLE 6
GENERAL

Section 6.1 Governing Law.

This Amending Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein.

Section 6.2 Counterparts.

This Amending Agreement may be executed in one or more counterparts (including counterparts by facsimile), each of which shall be deemed an original and all of which together constitute one and the same instrument.

IN WITNESS WHEREOF the parties hereto have duly executed this Fifth Amending Agreement as of the day, month and year first above written.

FLEXTRONICS TELECOM SYSTEMS LTD.

By: /s/ M. Marimuthu
Name: Manny Marimuthu
Title: Authorized Signatory

NORTEL NETWORKS LIMITED

By: J. Joel Hackney
Name: Joel Hackney
Title: Senior Vice-President,
Global Supply Chain and Quality

FLEXTRONICS INTERNATIONAL LTD., acting through its Hong Kong branch

By: /s/ M. Marimuthu
Name: Manny Marimuthu
Title: Authorized Signatory

EXHIBIT "A"
DELIVERED SCHEDULES

See attached.

EXHIBIT "B"
LIST OF DELIVERED SCHEDULES

Schedule	Delivering Party
Schedule 1.1 − Designated Purchasers and Purchase Price Allocations	NNL / Flex
Schedule 1.1(33) − Collective Labour Agreements	NNL
Schedule 1.1(37) − Contracts	NNL
Schedule 1.1(44) − Design Employees	NNL
Schedule 1.1(57) − End of Life Inventory	NNL
Schedule 1.1(63) − Equipment At Third Party Locations	NNL
Schedule 1.1(113) − Inventory	NNL
Schedule 1.1(118) − IS Software	NNL
Schedule 1.1(122) − Key Employees	NNL
Schedule 1.1(123)(i) − NNL' s "Knowledge" List	NNL
Schedule 1.1(123)(ii) − Flex' s "Knowledge" List	Flex
Schedule 1.1(125) − Leased Equipment	NNL
Schedule 1.1(133) − Logistics Employees	NNL
Schedule 1.1(173) − Permitted Encumbrances	NNL
Schedule 1.1(199) − Repair Employees	NNL
Schedule 1.1(200) − Repair Inventory	NNL
Schedule 2.1(1)(d) − Owned Equipment	NNL
Schedule 2.1(1)(l) − Operating Permits	NNL
Schedule 2.1(1)(n) − Security Deposits	NNL
Schedule 2.1(1)(q) − Prepaid Expenses	NNL
Schedule 2.1(2)(p) − Other Excluded Assets	NNL
Schedule 2.3(2) − Cash Flow Payments	NNL
Schedule 2.6 − List of PCs and Ancillary Equipment To Be Transferred	NNL
Schedule 2.6A − List of Previously Leased PCs and Ancillary Equipment To Be Transferred	NNL
Schedule 3.2(2) − Flex' Conflicts Exceptions	Flex
Schedule 3.6 − Flex' Employee Plans and Actions	Flex
Schedule 4.1(3) − Nortel Subsidiaries Conducting Operations	NNL
Schedule 4.10 − Litigation	NNL
Schedule 4.11(1) − NNL' s Employee Plans	NNL
Schedule 4.11(2) − Compensation and Benefit Claims	NNL
Schedule 4.12(1) − Employees	NNL
Schedule 4.12(2) − Work Stoppages	NNL
Schedule 4.12(3) − Compliance with Employment Law Exception	NNL
Schedule 4.12(4) − Leave Employees	NNL

Schedule	Delivering Party
Schedule 4.12(5) − Long-Term Disability Leave Employees	NNL
Schedule 4.12(6) − Labour Relations Exceptions	NNL
Schedule 4.12(7) − Visa Employees	NNL
Schedule 4.12(8) − Workers' Compensation Law Exceptions	NNL
Schedule 4.12(9) − Employee Accrued and Unused Vacation	NNL
Schedule 4.12(10) − Design, Repair and Logistics Employees	NNL
Schedule 4.12(11) − Collective Labour Agreement	NNL
Schedule 4.12(13) − U.S. Employee Job-Related Felony Convictions	NNL
Schedule 4.15 − Inventory Exceptions	NNL
Schedule 4.15 (1) − Inventory Forecasts	NNL
Schedule 4.17 − Equipment Exceptions	NNL
Schedule 4.19 − Sufficiency of Assets	NNL
Schedule 4.2(2) − NNL' s Conflicts Exceptions	NNL
Schedule 4.20 − Other Purchase Agreements	NNL
Schedule 4.21 − Government Assistance Programs	NNL
Schedule 4.3 − Financial Information	NNL
Schedule 4.5 − Absence of Certain Developments	NNL
Schedule 4.6 − Compliance with Laws, Permits and Licenses Exceptions	NNL
Schedule 4.8 − Contracts Exceptions	NNL
Schedule 4.8(9) − Other Third Party Payment Exceptions	NNL
Schedule 4.8(10) − Company-Wide Contracts Rights or Licenses	NNL
Schedule 4.9(1) − Other Intellectual Property Agreements/ Obligations	NNL
Schedule 4.9(2) − Intellectual Property Rights Claims Exceptions	NNL
Schedule 4.9(3) − Intellectual Property Rights Infringement Exceptions	NNL
Schedule 5.1(2) − Filings and Approvals	Flex
Schedule 5.2 − Operation of Business Exception	NNL

EXHIBIT "C"
"Exhibit A" to the Nortel Proprietary Software License Agreement

See Attached.

Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

SECOND AMENDING AGREEMENT
TO
AMENDED AND RESTATED MASTER CONTRACT MANUFACTURING SERVICES AGREEMENT

THIS SECOND AMENDING AGREEMENT TO AMENDED AND RESTATED MASTER CONTRACT MANUFACTURING SERVICES AGREEMENT ('Amendment") is entered into between Nortel Networks Limited, a Canadian corporation with a place of business at 8200 Dixie Road, Suite 100, Brampton, Ontario L6T 5P6 ("NNL") and Flextronics Telecom Systems, Ltd., a company organized under the laws of Mauritius ("FTS"), and shall be effective as of May 8, 2006 ("Effective Date").

WHEREAS, NNL and FTS (the "Parties") entered into an Asset Purchase Agreement dated as of June 29, 2004, as amended (the "APA"), whereby NNL agreed to sell and FTS agreed to purchase certain assets for the purpose of transferring, *inter alia,* those Operations (as that term is defined in the APA), conducted in the Monkstown Facility (as that term is defined in the APA) located in Monkstown, Northern Ireland;

AND WHEREAS, the Parties also entered into an Amended and Restated Master Contract Manufacturing Services Agreement dated as of June 29, 2004, and subsequently amended as of November 1, 2004 (the "MCMSA"), whereby NNL agreed to purchase and FTS agreed to provide, or cause it affiliates to provide, certain manufacturing and design services;

AND WHEREAS, the Parties have subsequently agreed that the Monkstown Facility will not transfer to FTS;

AND WHEREAS, NNL and FTS wish to amend the MCMSA to reflect the impact of NNL' s retention of the Monkstown System House, as well as to correct some errors in the MCMSA which the Parties recognized after the MCMSA was signed.

NOW, THEREFORE, in consideration of the mutual promises hereinafter set forth (the receipt and sufficiency of which is hereby acknowledged), the Parties hereby agree as follows:

1. Except as expressly defined herein or by reference to definitions in the APA, the words used as defined terms in the Second Amending Agreement shall have the same meaning and effect as those set definitions set forth in Exhibit 1 to the MCMSA.

MONKSTOWN SYSTEM HOUSE

2. Section 1.3 of the MCMSA is hereby amended to insert a new section 1.3.7 entitled "Monkstown System House Operations" and reading as follows:

During the Minimum Commitment Period, as defined in Section 1.3.2, in the event that Nortel decides to outsource any portion of the Monkstown Systems House operations which are (i) being conducted by Nortel as of the Effective Date and (ii) were included within subsections (i) and (ii) of the definition of "Operations" set forth in the APA, then Nortel will work with Flextronics exclusively for a reasonable period of time (not to exceed 90 days) to outsource such work to Flextronics. Nortel will accept Flextronics' s offer for such outsourced business provided that Flextronics' s ability to provide a level of cost, service, and quality meets Nortel' s identified targets for the relevant products. In the event Flextronics does not provide an acceptable offer in such period of time, Nortel shall have the right to attempt to outsource the work through a competitive bid, auction or similar process. Flextronics shall be invited to participate in any such competitive process. Nortel shall not accept an offer from another outsource supplier that, in aggregate, is equal or lesser in value than the then-outstanding available offer from Flextronics. In the event a competitive process is followed and Flextronics has not provided the best offer, Nortel will provide an indication to Flextronics of what improvements would be required in the then-current Flextronics offer in order for the offer to be competitive and for Nortel to award the business to Flextronics. If Flextronics agrees to make such improvements to their offer, Nortel will award the business to Flextronics.

3. Nortel will purchase the requirements of the Monkstown System House for Manufacturable Products from Flextronics according to the schedule currently set out as vertical integration to Flextronics in the Product Transition Plan; however, the Product Transition Plan will be amended to defer the transfer of the sourcing of the Optical and Enterprise EMS Products from Solectron Dunfermline to Flextronics until July 1, 2007 (the "Dunfermline Products").

4. Section 1.3.2 of the MCMSA is hereby amended to delete the first paragraph and replace with the following paragraph:

During the first two (2) years of the Minimum Commitment Period, Nortel Networks will source a minimum of [ ] of its spend on Manufacturable Products with Flextronics. In the third (3rd) year of the Minimum Commitment Period, Nortel Networks will source a minimum of [ ] of its spend on Manufacturable Products with Flextronics and in the fourth (4th) year of the Minimum Commitment Period, Nortel Networks will source a minimum of [ ] of its spend on Manufacturable Products with Flextronics. The Minimum Commitment Period shall be defined as beginning on October 1, 2005. Notwithstanding the calculation of the Minimum Commitment set out above, for the period between October 1, 2005 and

ending on the date of the Calgary Systems House transfer, the Minimum Commitment shall be [ ]

TERM AND ICR SCHEDULE AND PROCESS

5. The content of Section 1.5 of the MCMSA is hereby deleted and replaced with the following:

This Agreement shall commence on the Amendment Effective Date and continue until terminated in accordance with this Agreement (the "Amended Term"). For purposes of Section 11 and related Exhibits, Year One shall begin on August 1, 2005 and Years Two, Three and Four shall begin on the respective anniversaries of August 1, 2005. Either Party may deliver a notice for termination for convenience to take effect 180 days following such notice; provided however, that no such notice may be delivered before April 1, 2009.

ICR.

6. The ICR achieved by Flextronics under the MCMSA shall be shared with Nortel as per the following:

i. ICR generated through Vertical Integration transfers of PCBA and Enclosures to Flextronics (including PPV and Transformation Cost savings) will be shared [ ] Flextronics and [ ] Nortel, whenever the transfer occurs;

ii. [ ]

CALCULATION OF CAP FOR LAST TIME BUY

7. Section 4.4.4 of the MCMSA is hereby amended to insert the following paragraph between the penultimate and final paragraphs of that Section:

Notwithstanding anything in this Section 4.4.4 to the contrary, prior to the completion of the final Systems House divestiture, the cap applicable to Last Time Buy inventory shall be calculated as follows:

(a) The revenue applicable to the calculation shall be that of St Laurent and Chateaudun

(b) The revenue (forecast and actual) applicable to the calculation shall exclude non-integrated OEM materials

For the 6 months immediately following the transfer of a Systems House, the determination of the revenue number to be used to calculate the Last Time Buy cap (where 6 months of historical revenue data is required) will use Nortel pre-transfer revenue data in place of Flextronics revenues, for whichever months Flextronics data is not available. Six months after the transfer of the final Systems House to Flextronics, the cap shall be calculated as set out above in this Section 4.4.4.

FOREIGN CURRENCY CONVERSION

8. The definition of "Currency Conversion" in Exhibit 1 is hereby deleted and replaced with the following:

"Currency Conversion" means a factor used in calculating Price or Material Cost, or any part thereof, for purchases in a currency other than the currency in which Nortel Networks is required to pay Flextronics hereunder, based on the "FX Bench" forward currency rate as published by Reuters 12.00 CET on the mutually agreed date for pricing (the "Exchange Rate"), or any other benchmark as otherwise agreed in the applicable VSHA.

9. Section 11.2 of the MCMSA is herby amended to delete the second paragraph and replace it with the following:

If payment is made in currency other than U.S. dollars, the Parties shall use the Currency Conversion factor for SC Materials, NC Materials and Transformation Costs to calculate payment. Currency fluctuation shall be measured monthly as part of the monthly price review. [ ] In such instances, Flextronics will provide Nortel with all relevant documentation pertaining to their hedging activities to support their claim of loss. Such documentation may include (but is not limited to) original volume forecast, actual volumes and trade tickets from bank to confirm currency volume, rates and institution. Nortel shall provide a response to such compensation request within 14 days of receipt of the documentation. Nortel shall make payment for such request 14 days after the compensation amount has been agreed.

MISCELLANEOUS

10. The reference to "Corporate Standard 180.40 Component Flextronics Assessment, Approval and Qualification" in the third paragraph of Section 4.5 shall be changed to "Corporate Standard 180.111 Component Qualification and Corporate Standard 180.112 Supplier Assessment and Approval."

11. Exhibit 3 of the MCMSA shall be deleted and replaced with the Exhibit 3 attached hereto as Schedule A.

12. The definition of "Flextronics" and "Flextronics Company" in Exhibit 1 shall be deleted and replaced as follows

"**Flextronics**" means FTS and, as applicable, any Flextronics Company.

"**Flextronics Company**" means any FTS Affiliate that is to (i) deliver Products to fulfill a Purchase Order or Online System Order, received pursuant to this Agreement and the relevant Virtual Systems House

Agreement or (ii) deliver Design Services to fulfill a Design Order or a Sustaining Design Order pursuant to Exhibit 9-1 or 9-2 to this Agreement.

13. Section 4.9 of the MCMSA shall be amended to replace the reference to Section 4.7 with a reference to Section 4.8.

14. All other terms and conditions of the MCMSA shall remain unchanged; nothing herein shall be construed as relieving either party of any right or obligation under the MCMSA except as expressly set forth herein.

IN WITNESS WHEREOF, the parties hereto have signed this Second Amending Agreement to the Amended and Restated Master Contract Manufacturing Services Agreement by their duly authorized representatives, to be effective as of the Effective Date first above written, although actually signed by the parties on the dates shown below their respective signatures.

NORTEL NETWORKS LIMITED

By: /s/ J. Joel Hackney

Name: Joel Hackney
Title: Senior Vice-President,
Global Supply Chain and Quality

Date: May 8, 2006

FLEXTRONICS TELECOM SYSTEMS, LTD.

By: /s/ M. Marimuthu

Name: Manny Marimuthu
Title: Director

Date: May 8, 2006

Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

SCHEDULE A

EXHIBIT 3

SUPPLIER QUALITY REQUIREMENTS MANUAL

This manual is found on the Nortel website at **http://mynortelnetworks.com** Printed copies are uncontrolled documents. While Nortel will communicate to suppliers major revisions to this manual, suppliers are expected to remain up to date on Nortel requirements by frequently visiting the Nortel website. Any changes which may have a impact on Product quality or reliability (including field failure rates and Epidemic Condition) will be considered major revisions.

Exhibit 10.5

AMENDMENT NO. 2
TO
MASTER REPAIR SERVICES AGREEMENT
BY AND BETWEEN
NORTEL NETWORKS LIMITED
AND
FLEXTRONICS TELECOM SYSTEMS LTD.

This Amendment No 2 is effective as of the 8th day of May 2006 ("Effective Date") by and between Nortel Networks Limited, a Canadian corporation with a place of business at 8200 Dixie Road, Suite 100, Brampton, Ontario ("Nortel Networks") and Flextronics Telecom Systems Ltd., a company organized under the laws of Mauritius, and having its registered office located at Suite 802 St James Court, St Denis Street, Port Louis, Mauritius ("Flextronics");

each a "Party" and together the "Parties".

WHEREAS, Nortel Networks and Flextronics previously entered into a Master Repair Services Agreement, executed June 29, 2004 ("Execution Date") ("Master Repair Services Agreement") which they thereafter amended by Amendment No. 1 effective February 8, 2005 (the Master Repair Services Agreement and Amendment No 1 thereto shall hereafter be collectively referred to as the "MRSA");

WHEREAS, Nortel Networks and Flextronics do wish by this Amendment to further amend the MRSA;

WHEREAS pursuant to the MRSA, Flextronics provides Nortel Networks certain repair services in respect of products manufactured pursuant to the terms of the Amended and Restated Master Contract Manufacturing Services Agreement, effective June 29, 2004 ("Manufacturing Agreement");

WHEREAS the Parties agree that the terms and conditions of the MRSA are intended to come into effect upon execution of each individual Virtual System House Agreement ("VSHA"), (as defined in the MRSA), associated with the Manufacturing Agreement;

WHEREAS the Parties agree that upon execution of the Calgary VSHA ("Calgary VSHA Effective Date"), all the terms and conditions of the MRSA cannot be implemented and applicable between them until such time as Flextronics pursuant to the MRSA assumes control of the CTDI Oakville, CTDI Nashville, PCS North York, and CTDI Westchester Hubs or until such time as the Parties mutually agree to amend the terms and conditions in the MRSA;

WHEREAS the Parties wish to detail in this Amendment No. 2 certain variations of and deviations from the application of the terms and conditions of the MRSA during the period beginning on the Calgary VSHA Effective Date and the date on which Flextronics pursuant to the MRSA assumes control of the CTDI Oakville, CTDI Nashville, PCS North York, and CTDI Westchester Hubs, or until such time as the Parties mutually agree to amend the terms and conditions in the MRSA. (such period hereinafter referred to as the "Interim Period").

NOW, THEREFORE, intending to be legally bound and in consideration of the promises and the mutual covenants contained herein, the receipt of and sufficiency of which are acknowledged, Nortel Networks and Flextronics agree to the following:

1. Purpose

The Parties hereby agree that the purposes of this Amendment No. 2 is to restate those terms and conditions of the MRSA which are not applicable, or which deviate from or vary the terms and conditions of the MRSA during the Interim Period. For the purposes of this Amendment No 2, the terms and conditions of the MRSA shall apply between the Parties during the Interim Period, except as otherwise provided herein.

2. Term

This Amendment No. 2 shall apply during the Interim Period, and upon expiration of the Interim period, all terms and conditions of the MRSA, as specifically stated therein, shall begin to apply with respect to the Calgary VSHA.

A. Definitions. In addition to other terms which may be defined herein and in the MRSA, the following terms, when capitalized, whether in singular or plural form as appropriate, shall have the meanings set forth herein: "**Repair Warranty Period**" means zero (0) months from Shipping Date.

B. MRSA. The following provisions of the MRSA shall not apply and shall have no effect to the Calgary repair operations and are hereby varied during the Interim Period:

(i) Section 4.1 **(Transfer of Title and Risk of Loss)** and section 4.1 shall be replaced with the following: "Flextronics shall tender the shipments to carriers as directed in the routing guide provided by Nortel Networks. Title and risk of loss will pass to Nortel Networks when carrier accepts shipment from Flextronics facility EXW (Ex works, Incoterms 2000). All freight expenses to and from the Hubs to the Repair Center will be paid by Nortel Networks. Any other freight expenses will be paid by Flextronics and invoiced separately to Nortel Networks."

(ii) Section 5.3 (**Management of Third Party Contracts**) and section 5.3. shall be replaced with the following: "Flextronics shall be responsible for managing applicable third party vendors, which supply repair materials or services for the Products, as set forth in Exhibit 1 of this Agreement, in order to provide Repair Services under this Agreement."

(iii) Section 8.2. (**Class B Inventory and Class C Inventory**) and section 8.2. shall be replaced with the following: "Flextronics will not be responsible for maintaining appropriate levels of Class B Inventory.

Should there be insufficient Class B Inventory available to service a Customer order, it is expected that Flextronics will fast track Class C Inventory, upon arrival at the repair facility, through the repair process in order to meet the level of service criteria as shown in Exhibit 5. Should there not be enough Class C Inventory available to either service a customer order or a normal Class B Inventory restocking demand, then Flextronics shall inform the appropriate Nortel Networks representative as soon as is reasonably practicable. Provided that Flextronics has met it' s obligations in this Agreement for controlling, planning and securing components, Flextronics shall not be held accountable for those level of service misses caused by not having enough Class C Inventory. Flextronics shall not hold Nortel Networks financially accountable for any loss of repair revenues due to a lack of Class C Inventory. Should such event result in an A-B write-down, then Nortel Networks will be financially accountable for any A-B write-down costs.

Except as otherwise agreed in writing by Nortel Networks, all Class C Inventory acquired by Flextronics after the Effective Date shall be used by Flextronics exclusively for the satisfaction of any obligation it may have to provide Repair Services, directly or indirectly, to Nortel Networks under this Agreement.

If Flextronics decides to junk or dispose of Class C Inventory, Flextronics will, upon authorization by Nortel Networks, dispose of such Inventory free of processing charges, utilizing Nortel Networks' designated reclamation center."

(iv) Section 8.4 (**Components**) and section 8.4 shall be replaced with the following: "Flextronics shall perform, on an ongoing basis, all activities necessary to manage the supply of Repaired Products in accordance with the terms of this Agreement, such activities to include, but not be limited to, the following:

(a) conduct and provide to Nortel Networks a summary and forecast of components that any supplier in the supply chain plans to discontinue;

(b) identify, monitor and react to suppliers end-of-life notifications;

(c) apply strategic technical analysis of the supply base to proactively warn of potential End-of-Life Inventory trouble areas by product family;

(d) maintain and provide to Nortel Networks a consolidated list of components (including supplier part numbers) which are approaching end-of-life;

(e) for components that have had last time buys performed, track and monitor Inventory on hand and projected use up dates with the goal of continuity of supply and be able to react accordingly if the use up date is advanced;

(f) negotiate with supply base to maintain supply until an alternative solution can be achieved;

(g) if required by Nortel Networks, research, review and recommend to Nortel Networks for approval (including business case, detailed cost analysis, design plans, last time buy quantity required, qualification and verification plans, scope of intellectual property risk known to Flextronics and the basis of Flextronics' knowledge) of the best alternative available, such as, perform last time buy, component substitutions, component packaging foot print changes,

elimination of the component by incorporating function into another component, specification relaxation to eliminate the need for the component. In this regard, Nortel Networks will provide Flextronics with parameters concerning its forecasted demand for the Product through the Products end-of-life, including, without limitation, the estimated sell-off period and aggregate quantity required and anticipated Product mix (the "End of Life Parameters"). Flextronics shall be entitled to rely on such End of Life Parameters in conducting its analysis;

(h) when a last-time buy plan is approved by Nortel Networks, Flextronics shall perform the activities set out in Section 8.4 of the MRSA including executing the last-time buy and such Inventory will be considered End-of-Life Inventory.

(i) Flextronics / Nortel Networks will discuss and negotiate in good faith so as to arrive at a mutually agreed upon solution with respect to the ownership of last-time-buy material, including but not limited last-time but components."

(v) Section 8.5. (**Purges**) and section 8.5 shall be replaced with the following:

"Flextronics will not be responsible to keep Class B Inventory at or above the baseline shippable release levels ("Baseline"). Upon either party determining that such Inventory is not at Baseline, Flextronics shall collaborate with Nortel to bring Inventory to Baseline provided that there is a viable upgrade path. Flextronics shall propose via the process outlined in Section 7.2, and Nortel Networks shall pay, for those commercially reasonable costs provided that Nortel Networks has approved those charges."

(vi) Section 8.7 (**Excess Inventory**) and section 8.7 shall be replaced with the following: "Nortel Networks shall have no obligation or liability to Flextronics with respect to excess and obsolete Inventory, other than as set out herein.

For every Product sold to Nortel Networks, Flextronics shall be permitted to charge Nortel Networks an uplift percentage applicable on the Product Price. Flextronics will not charge Nortel Networks an uplift percentage applicable on the Product Price during Year 1. Rather, 15 months post the Effective Date, Flextronics will declare the quantity of unconsumed Inventory sold to Flextronics on the Effective Date, of which Nortel Networks will repurchase and move to an alternate location.

An uplift factor will not be applied for raw material to compensate for excess and obsolete inventory (E and O). Nortel Networks and Flextronics will review Quartly E and O material being held by the Calgary Repair Center. Nortel Networks will purchase E and O Inventory, at the original purchase value to the extent that Flextronics has demonstrated commercially reasonable planning and purchasing practices."

(vii) Section 8.8 (**Consigned Inventory)** and section 8.8 shall be replaced with the following:

"On the Effective Date, Flextronics will purchase from Nortel Networks, up to a maximum of 10 month' s forecasted quantity of components required to support repair of the Products. All other components will be held by Nortel Networks at an alternate location. Flextronics will purchase such components from Nortel Networks, as if it were Consigned Inventory.

With respect to Consigned Inventory:

(a) Unless Nortel Networks otherwise directs, Flextronics shall hold such inventory on behalf of and, in the ordinary course of business, at no additional cost to Nortel Networks;

(b) Flextronics shall keep and care for such Consigned Inventory with the same standard of care as if it were part of the Inventory, including the obligation to hold at Flextronics' risk and to insure against loss. However, no such Consigned Inventory shall be, nor be deemed to be, a part of the Inventory;

(c) Flextronics shall repurchase all suitable components from Nortel Networks Consigned Inventory prior to purchasing new material;

(d) When Flextronics is required to acquire Consignment Inventory, Flextronics will acquire the lesser of all Consigned Inventory or 30 times the Daily Usage Rate.

(e) Flextronics shall make such purchase at the then current Price unless otherwise agreed by the Parties. Flextronics shall make payment to Nortel Networks for such purchases within forty (40) days thereof;

(f) In the event Flextronics does not repurchase Consigned Inventory in accordance with the foregoing, Nortel Networks shall be deemed to have sold such Inventory to Flextronics and Flextronics will immediately credit Nortel Networks with the amount attributable to such deemed repurchase;

(g) Flextronics will be responsible for normal cycle count adjustments for Consigned Inventory. The Parties agree that this cost is included in the Price; and

(h) If Nortel Networks requires Flextronics to increase the level of Consigned Inventory above the level as of the Effective Date, the Parties will mutually agree if an adjustment is required to the Price."

viii) **Exhibit 1** – Exhibit 1 of the MRSA (*Third Party Management Statement of Work*) and Exhibit 1 of the MRSA shall be replaced with Exhibit 1 attached hereto.

ix) **Exhibit 2** – Exhibit 2 of the MRSA (*Logistics Statement of Work*) and Exhibit 2 of the MRSA shall be replaced with Exhibit 2 attached hereto.

x) **Exhibit 3** – Exhibit 3 of the MRSA (*Repair Statement of Work*) and Exhibit 3 shall be replaced with Exhibit 3 attached hereto.

xi) **Exhibit 4** – Exhibit 4 of the MRSA (*A to B Writedown Templates*).

xii) **Exhibit 5** – Exhibit 5 of the MRSA (*Metrics and Report Card*) and Exhibit 5 shall be replaced with Exhibit 5 attached hereto.

xiii) Exhibit 6 – Exhibit 6 of the MRSA (*Products*) and Exhibit 6 shall be replaced with Exhibit 6 attached hereto.

3. *For the avoidance of doubt, the varied provisions listed above are incorporated and form part of this Amendment No.2 and except as provided above the MRSA remains unmodified.*

This Amendment Number 2 to the Master Repair Services Agreement is hereby executed by the duly authorized representative of each Party.

Flextronics Telecom Systems Ltd.

Signed /s/ M. Marimuthu
Name Manny Marimuthu
Position Director

Nortel Networks Limited

Signed /s/ Joel Hackney
Name Joel Hackney
Position Senior Vice-President,
Global Supply Chain and Quality

Exhibit 10.6

Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

TO: FLEXTRONICS INTERNATIONAL LIMITED

Re: Changes with respect to the certain Letter Agreement entered into as of June 29, 2004 in connection with the Asset Purchase Agreement ("APA") and Amended and Restated Master Contract Manufacturing Services Agreement ("MCMSA") between Nortel Networks Limited (the "Seller") and Flextronics International Limited (the "Purchaser") dated June 29, 2004

1. This Letter Agreement, dated as of May 8, 2006 ("**Amended and Restated Letter Agreement**"), amends and restates in its entirety that certain Letter Agreement dated June 29, 2004, a copy of which is attached as Schedule A hereto ("**Original Letter Agreement**"). The parties agree this Amended and Restated Letter Agreement shall be effective as of June 29, 2004 and that the Original Letter Agreement shall have no further force or effect.

2. In connection with the transactions contemplated in the APA and the MCMSA, and in recognition of the period in respect of which the Transferred Employees were employed as employees of the Seller or Designated Seller, and in connection with an associated ICR commitment made by the Purchaser or Designated Purchaser, the Seller or Designated Seller wishes to set out in this Amended and Restated Letter Agreement the terms and conditions of the parties' agreement relating to certain post-closing Severance Cost payments to be made by the Seller or Designated Seller.

3. Any capitalized term contained in this Amended and Restated Letter Agreement which is not defined herein shall have the meaning set out in the APA or the MCMSA, as the case may be. The following terms shall have the following meanings:

"**Nortel Networks Systems Houses**" means the Operations housed in the Calgary Westwinds Facility, Montreal BAN 1 Facility, Montreal BAN 3 Facility, Montreal BAN 3 Facility and Montreal OPTO 1 Facility.

"**Severance Costs**" means:

(i) for Alberta and Ontario Transferring Employees, the statutory and common law entitlements of an employee whose employment is

terminated by the Purchaser or Designated Purchaser, based on the factors recognized by the relevant Government Entities including, without limitation, courts of competent jurisdiction, and reasonable outplacement fees;

(ii) for Quebec Non-Union Transferring Employees, the entitlements under the Laws of the Province of Quebec, of an employee whose employment is terminated by the Purchaser or Designated Purchaser, based on the factors recognized by the relevant Government Entities including, without limitation, courts of competent jurisdiction, and reasonable outplacement fees;

(iii) for Quebec Union Transferring Employees, the entitlements under the relevant Collective Labour Agreement and as provided under the Laws of the Province of Quebec of an employee whose employment is terminated by the Purchaser or Designated Purchaser;

(iv) for the U.S. Transferring Employees, [ ] of the severance pay in accordance with Purchaser' s obligations pursuant to Section D-9.9 of Exhibit D-9, and reasonable outplacement fees.

"**Terminated**", "**Terminates**", "**Terminate**" or "**Termination**" refers to a cessation of employment of a Transferring Employee initiated by the Purchaser or Designated Purchaser and, without limiting the generality of the foregoing, includes a layoff with no right of recall (applies only to Quebec Union Transferring Employees), and temporary layoffs deemed to be a termination of employment under applicable law.

4. Subject to the conditions of this Amended and Restated Letter Agreement, in the event that: (1) within a period of [ ] following the applicable Effective Date of the applicable Close the Purchaser or Designated Purchaser Terminates the employment of any Transferring Employee; and (2) as a direct result of said Termination, the Purchaser or Designated Purchaser incurs a cost within a period of [ ] following the applicable Effective Date of the applicable Close, the Seller or Designated Seller shall, in accordance with paragraph 6(e), reimburse the Purchaser or Designated Purchaser for any Severance Costs it has actually incurred.

5. Seller or Designated Seller agrees that:

(a) prior to providing notice of termination or Terminating the employment of any Transferring Employee, the Purchaser or Designated Purchaser shall consult with Seller or Designated Seller regarding its plans as early as practicable. It shall be a condition of any reimbursement, however, that such consultation shall occur in no event later than twenty (20) Business Days prior to the issuance of any notice of termination or redundancy, in order to facilitate discussion between the Seller or Designated Seller and the Purchaser or Designated Purchaser regarding any potential alternatives to Termination of employment and regarding strategies to reduce Severance Costs;

(b) prior to providing notice of Termination, or Terminating the employment of any Transferring Employee, if reimbursement is to be claimed hereunder for resulting costs, the Purchaser or Designated Purchaser shall have made commercially reasonable efforts, consistent with its cost reduction objectives, to avoid the Termination of Transferring Employees, including but not limited to the termination of the employment or services of individuals, other than Transferring Employees, that are employed at the same facility and providing the same or substantially similar services at an equivalent level of performance, to the extent permitted by applicable Law;

(c) in consideration of any payments it makes to Transferring Employees it has Terminated in excess of their statutory termination entitlements, the Purchaser or Designated Purchaser shall seek to obtain a general release from such Transferring Employee, including a release of claims against the Seller and its Affiliates.

6. Notwithstanding anything in the foregoing to the contrary:

(a) "**Severance Costs**" do **not** include any amount claimed by, or paid to a Transferring Employee on account of his/her wrongful or unlawful treatment by the Purchaser post-applicable Employment Transfer Date, including, without limitation, unfair dismissal liability, discrimination or human rights liability, extra-contractual or tort damages, Wallace-type damages (Canada only) or legal fees and disbursements;

(b) Notwithstanding subparagraph 6(f), Seller has no obligation to pay any Severance Costs incurred by Purchaser resulting from: (i) operational efficiencies realized by the Purchaser or Designated Purchaser in former Nortel Networks System Houses that are unrelated to the considerations

described in Section 6(f), unless approved by Seller or Designated Seller in its sole discretion; (ii) reductions in headcount due to any change in general economic, business or financial market conditions, or a decrease in the customer demand for the Seller' s or Designated Seller' s products; (iii) any labour actions including, without limitation, work stoppages or other industrial action to the extent such labour actions are unrelated to measures taken for the achievement of ICR; (iv) war (whether declared or undeclared), (v) revolution, riot, insurrection, public demonstration or other civil commotion, (vi) acts of terrorism, sabotage, criminal damage or threat of such acts, or (vii) nuclear explosion, radioactive or chemical contamination or ionising radiation; and (viii) any other force majeure events. This subsection 6(b) shall not apply to (a) Severance Costs paid to Design Employees.

(c) Severance Costs do not include any costs incurred by the Purchaser relating to: Brazil Transferring Employees; France Transferring Employees; Design Employees (except as set out in attached Schedule B), Logistics Employees, or Repair Employees as defined in Schedules 1.1(42), 1.1(128) and 1.1(190) respectively.

(d) Purchaser shall invoice Seller quarterly and furnish supporting evidence, satisfactory to the Seller, in reasonable detail, of Severance Costs it has incurred in the course of terminating Transferring Employees, and in respect of which reimbursement is sought. Seller shall pay approved invoices within thirty-eight (38) days of receipt provided, however, that Seller shall have the right, without notice or other formality, to set-off and apply any obligation, present or future, owed by Seller to Purchaser arising under or in connection with this Amended and Restated Letter Agreement, against any obligation, present or future, owing by Purchaser to Seller under the APA with respect to the Purchase Price, including amounts owed under the Promissory Notes.

(e) the maximum liability of the Seller for Severance Costs pursuant to this Amended and Restated Letter Agreement (other than pursuant to Schedule B) shall not exceed [ ] in the aggregate ("**Severance Cost Cap**"), and, provided that, up to a maximum percentage of the Severance Cost Cap as set forth below shall become available to the Purchaser following the Closing of each of the following tranches:

(i) Montreal BAN 1 Facility, Montreal BAN 3 Facility, and Montreal OPTO 1 Facility – [ ]

(ii) Calgary Westwinds Facility – [ ]

In the event that the tranches are other than as set out above, the Seller and the Purchaser shall mutually agree on an appropriate change to the above apportionment of availability of the amounts that comprise the Severance Cost Cap.

(f) the maximum number of Transferring Employees whose Termination may trigger an obligation by Seller or Designated Seller to pay Severance Costs pursuant to this Amended and Restated Letter Agreement is [ ]. With respect to that number: (i) up to [ ] may be Alberta and Ontario Transferring Employees, Quebec Union Transferring Employees, or Quebec Non-Union Transferring Employees related to the implementation of the Transition Implementation Plan; and (ii) up to [ ] may be Alberta and Ontario Transferring Employees, Quebec Union Transferring Employees or Quebec Non-Union Transferring Employees related to the implementation of other Authorized Plans. The [ ] may include both direct manufacturing employees or indirect employees. None of the [ ] will be Design Employees. Severance Costs with respect to Design Employees are set out in Schedule B. An "Authorized Plan" means a plan, other than the Transition Implementation Plan, that has a positive business case for the achievement of ICR to the commercially reasonable satisfaction of the Seller.

7. Purchaser or Designated Purchaser shall not, within a period of twelve (12) months from the relevant Termination date, whether directly or indirectly, re-hire as an employee, or otherwise engage the services (including, without limitation, as a consultant or independent contractor) any Transferring Employee whose employment Purchaser or Designated Purchaser has Terminated and in respect of whom reimbursement has been sought by Purchaser or Designated Purchaser pursuant to this Amended and Restated Letter Agreement, unless (a) Seller gives its express consent, or (b) Purchaser or Designated Purchaser shall repay Seller for any amount that Seller reimbursed Purchaser or Designated Purchaser as Severance Costs with respect to such Transferring Employee in accordance with this Amended and Restated Letter Agreement.

8. In the event that the APA and MCMSA are terminated in accordance with their terms prior to the first Closing under the APA, this Amended and Restated Letter Agreement shall also terminate and will have no further force and effect.

9. Limitations on Losses. Under no circumstance shall either party be liable to the other Party under this Amended and Restated Letter Agreement for punitive damages or indirect, special or incidental damages, or damage to reputation, arising out of or in connection with any breach or alleged breach of any of the terms herein, including damages alleged as a result of tortious conduct.

10. Governing Law; Submission to Jurisdiction. This Amended and Restated Letter Agreement is made under the laws of the Province of Alberta and the Federal Laws of Canada applicable therein and shall for all purposes be construed in accordance with and governed by the laws of the Province of Alberta and the Federal Laws of Canada applicable therein (excluding the laws applicable to conflicts of law). The parties hereto agree that all disputes and claims, whether for damages, specific performance, injunction or otherwise, both at law and equity, arising out of or in any connection with this Amended and Restated Letter Agreement shall be brought in the Courts of the Province of Alberta located in the City of Calgary and hereby attorns to the exclusive jurisdiction of such court and service of process in any such suit being made upon such person by mail at the address specified in herein. Each Party hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient court.

11. Waiver of Jury Trial; Limitation on Damages. Each Party hereto hereby waives its right to a jury trial with respect to any action or claim arising out of any dispute in connection with this Amended and Restated Letter Agreement or any rights or obligations hereunder or the performance of such rights and obligations. Except as prohibited by law, each of the Party hereto hereby waives any right it may have pursuant to this Amended and Restated Letter Agreement to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages that are in excess of one times the losses incurred.

12. Notices and correspondence relating to this Amended and Restated Letter Agreement shall be addressed as follows:

To: Nortel Networks Limited
3500 Carling Avenue
Nepean, Ontario Canada K2H 8E9

Attention: Vice-President, Supply Management
Fax: (613)-763-8946

with required copies to:

Nortel Networks Limited
8600 Dixie Road, Suite 100
Brampton, Ontario Canada L6T 5P6
Attention: Secretary
Fax: (905) 863-8386

and: Nortel Networks Inc.
220 Athens Way, Suite 300
Nashville, Tennessee USA 37228-1397
Attention: Law Department
Fax: (615) 432-4067

To: Flextronics International Limited
Room 908, Dominion Centre
43-59 Queen' s Road East
Wanchai, Hong Kong
Attention: President
Fax: 852-2276-1084

and

To: Flextronics Telecom Systems, Ltd.
802 St. James Court
St. Denis Street
Port Louis, Mauritius
Attention: President
Fax: 230-212-7600

with a required copy to:

Flextronics International Inc.
305 Interlocken Parkway
Broomfield, Colorado 80021
Attention: General Counsel
Fax: (303) 927-4513

Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

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Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

DATED: May 8, 2006.

NORTEL NETWORKS LIMITED

By: /s/ Joel Hackney
Name: Joel Hackney
Title: Senior Vice-President,
Global Supply Chain and Quality

AGREED TO: 5/8, 2006.

FLEXTRONICS INTERNATIONAL LIMITED
Acting through its Hong Kong branch

By: /s/ M. Marimuthu
Name: Manny Marimuthu
Title: Authorized Signatory

FLEXTRONICS TELECOM SYSTEMS LTD.

By: /s/ M. Marimuthu
Name: Manny Marimuthu
Title: Director

Severance Side Letter − Calgary

SCHEDULE "A"

Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

TO: FLEXTRONICS INTERNATIONAL LIMITED

Re: Asset Purchase Agreement ("APA") and Amended and Restated Master Contract Manufacturing Services Agreement ("MCMSA") between Nortel Networks Limited (the "Seller") and Flextronics International Limited (the "Purchaser") dated June 29, 2004

1. In connection with the transactions contemplated in the APA and the MCMSA, and in recognition of the period in respect of which the Transferred Employees were employed as employees of the Seller or Designated Seller, and in connection with an associated ICR commitment made by the Purchaser or Designated Purchaser, the Seller or Designated Seller wishes to set out in this Letter the terms and conditions of the parties' agreement relating to certain post-closing Severance Cost payments to be made by the Seller or Designated Seller.

2. Any capitalized term contained in this Letter which is not defined herein shall have the meaning set out in the APA or the MCMSA, as the case may be. The following terms shall have the following meanings:

"Nortel Networks Systems Houses" means the Operations housed in the Calgary Westwinds Facility, Monkstown Facility, Montreal BAN 1 Facility, Montreal BAN 3 Facility, Montreal BAN 3 Facility and Montreal OPTO 1 Facility.

"Severance Costs" means:

(i) for Alberta and Ontario Transferring Employees, the statutory and common law entitlements of an employee whose employment is terminated by the Purchaser or Designated Purchaser, based on the factors recognized by the relevant Government Entities including, without limitation, courts of competent jurisdiction, and reasonable outplacement fees;

(ii) for Quebec Non-Union Transferring Employees, the entitlements under the Laws of the Province of Quebec, of an employee whose employment is terminated by the Purchaser or Designated Purchaser, based on the factors recognized by the relevant Government Entities including, without limitation, courts of competent jurisdiction, and reasonable outplacement fees;

(iii) for Quebec Union Transferring Employees, the entitlements under the relevant Collective Labour Agreement and as provided under the Laws of the Province of

Quebec of an employee whose employment is terminated by the Purchaser or Designated Purchaser;

(iv) for UK Transferring Employees, means;

(a) pay in lieu of contractual notice (where such notice is not worked); including employer' s National Insurance contribution, where applicable. For the absence of doubt, a payment in lieu of contractual notice shall include a payment in lieu of employee benefits in accordance with the Seller' s or Designated Seller' s current UK policy and practice.

(b) any required statutory redundancy payment

(c) an additional payment calculated in accordance with the attached Schedule A.

Such UK Severance Costs shall exclude, for the avoidance of doubt, any amount claimed by or paid to a UK Transferring Employee in respect of unfair dismissal, protective award or discrimination, or pursuant to the fair employment legislation of Northern Ireland; and,

(d) reasonable outplacement fees.

(v) for the U.S. Transferring Employees, [ ] of the severance pay in accordance with Purchaser' s obligations pursuant to Section D-9.9 of Exhibit D-9, and reasonable outplacement fees.

"Terminated", "Terminates", "Terminate" or "Termination" refers to a cessation of employment of a Transferring Employee initiated by the Purchaser or Designated Purchaser (including, but not limited to a termination by reason of redundancy) and, without limiting the generality of the foregoing, includes a layoff with no right of recall (applies only to Quebec Union Transferring Employees), and temporary layoffs deemed to be a termination of employment under applicable law.

3. Subject to the conditions of this Letter, in the event that: (1) within a period of [ ] following the applicable Effective Date of the applicable Close the Purchaser or Designated Purchaser Terminates the employment of any Transferring Employee; and (2) as a direct result of said Termination, the Purchaser or Designated Purchaser incurs a cost within a period of [ ] following the applicable Effective Date of the applicable Close, the Seller or Designated Seller shall, in accordance with paragraph 5(e), reimburse the Purchaser or Designated Purchaser for any Severance Costs it has actually incurred.

4. Seller or Designated Seller agrees that:

(a) prior to providing notice of termination or Terminating the employment of any Transferring Employee, the Purchaser or Designated Purchaser shall consult with Seller or Designated Seller regarding its plans as early as practicable. It shall be a condition of any reimbursement, however, that such consultation shall occur in no event later than twenty (20) Business Days prior to the issuance of any notice of termination or redundancy or, in the UK, on or about the date of commencement of the information and consultation process with the relevant employee representatives, if earlier, in order to facilitate discussion between the Seller or Designated Seller and the Purchaser or Designated Purchaser regarding any potential alternatives to Termination of employment and regarding strategies to reduce Severance Costs;

(b) prior to providing notice of Termination, or Terminating the employment of any Transferring Employee, if reimbursement is to be claimed hereunder for resulting costs, the Purchaser or Designated Purchaser shall have made commercially reasonable efforts, consistent with its cost reduction objectives, to avoid the Termination of Transferring Employees, including but not limited to the termination of the employment or services of individuals, other than Transferring Employees, that are employed at the same facility and providing the same or substantially similar services at an equivalent level of performance, to the extent permitted by applicable Law;

(c) in consideration of any payments it makes to Transferring Employees it has Terminated in excess of their statutory termination entitlements, the Purchaser or Designated Purchaser shall seek to obtain a general release from such Transferring Employee, including a release of claims against the Seller and its Affiliates, and specifically in relation to any UK Transferring Employee, a binding waiver of claims, in form(s) mutually satisfactory to both the Purchaser and the Seller.

5. Notwithstanding anything in the foregoing to the contrary:

(a) "Severance Costs" do **not** include any amount claimed by, or paid to a Transferring Employee on account of his/her wrongful or unlawful treatment by the Purchaser post-applicable Employment Transfer Date, including, without limitation, unfair dismissal liability, discrimination or human rights liability, extra-contractual or tort damages, Wallace-type damages (Canada only) or legal fees and disbursements;

(b) Notwithstanding subparagraph 5(f), Seller has no obligation to pay any Severance Costs incurred by Purchaser resulting from: (i) operational efficiencies realized by the Purchaser or Designated Purchaser in former Nortel Networks System Houses that are unrelated to the considerations described in Section 5(f), unless approved by Seller or Designated Seller in its sole discretion;

(ii) reductions in headcount due to any change in general economic, business or financial market conditions, or a decrease in the customer demand for the Seller' s or Designated Seller' s products; (iii) any labour actions including, without limitation, work stoppages or other industrial action to the extent such labour actions are unrelated to measures taken for the achievement of ICR; (iv) war (whether declared or undeclared), (v) revolution, riot, insurrection, public demonstration or other civil commotion, (vi) acts of terrorism, sabotage, criminal damage or threat of such acts, or (vii) nuclear explosion, radioactive or chemical contamination or ionising radiation; and (viii) any other force majeure events. This subsection 5(b) shall not apply to (a) Severance Costs paid to Design Employees, or (b) Severance Costs incurred as a result of any closure of the Monkstown Facility.

(c) Severance Costs do not include any costs incurred by the Purchaser relating to: Brazil Transferring Employees; France Transferring Employees; Design Employees (except as set out in attached Schedule B), Logistics Employees, or Repair Employees as defined in Schedules 1.1(42), 1.1(128) and 1.1(190) respectively;

(d) Purchaser shall invoice Seller quarterly and furnish supporting evidence, satisfactory to the Seller, in reasonable detail, of Severance Costs it has incurred in the course of terminating Transferring Employees, and in respect of which reimbursement is sought. Seller shall pay approved invoices within thirty-eight (38) days of receipt provided, however, that Seller shall have the right, without notice or other formality, to set-off and apply any obligation, present or future, owed by Seller to Purchaser arising under or in connection with this Letter, against any obligation, present or future, owing by Purchaser to Seller under the APA with respect to the Purchase Price, including amounts owed under the Promissory Notes.

(e) the maximum liability of the Seller for Severance Costs pursuant to this Letter (other than pursuant to Schedule B) shall not exceed [ ] (U.S.) in the aggregate ("Severance Cost Cap"), and, provided that, up to a maximum percentage of the Severance Cost Cap as set forth below shall become available to the Purchaser following the Closing of each of the following tranches,:

(i) Montreal BAN 1 Facility, Montreal BAN 3 Facility, and Montreal OPTO 1 Facility – [ ]

(ii) Calgary Westwinds Facility – [ ]

(iii) Monkstown Facility – [ ]

In the event that the tranches are other than as set out above, the Seller and the Purchaser shall mutually agree on an appropriate change to the above apportionment of availability of the amounts that comprise the Severance Cost Cap.

(f) the maximum number of Transferring Employees whose Termination may trigger an obligation by Seller or Designated Seller to pay Severance Costs pursuant to this Letter is [ ]. With respect to that number: (i) up to [ ] may be Alberta and Ontario Transferring Employees, Quebec Union Transferring Employees, Quebec Non-Union Transferring Employees or U.K. Transferring Employees related to the implementation of the Transition Implementation Plan; (ii) up to [ ] may be Alberta and Ontario Transferring Employees, Quebec Union Transferring Employees or Quebec Non-Union Transferring Employees or U.K. Transferring Employees related to the implementation of other Authorized Plans; and (iii) up to [ ] may be U.K. Transferring Employees whose employment has been Terminated as a result of any subsequent decision by Purchaser to close the Monkstown Facility. The [ ] may include both direct manufacturing employees or indirect employees. None of the [ ] will be Design Employees. Severance Costs with respect to Design Employees are set out in Schedule B. An "Authorized Plan" means a plan, other than the Transition Implementation Plan, that has a positive business case for the achievement of ICR to the commercially reasonable satisfaction of the Seller.

(g) [ ]

6. Purchaser or Designated Purchaser shall not, within a period of twelve (12) months from the relevant Termination date, whether directly or indirectly, re-hire as an employee, or otherwise engage the services (including, without limitation, as a consultant or independent contractor) any Transferring Employee whose employment Purchaser or Designated Purchaser has Terminated and in respect of whom reimbursement has been sought by Purchaser or Designated Purchaser pursuant to this Letter, unless (a) Seller gives its express consent, or (b) Purchaser or Designated Purchaser shall repay Seller for any amount that Seller reimbursed Purchaser or Designated Purchaser as Severance Costs with respect to such Transferring Employee in accordance with this Letter.

7. In the event that the APA and MCMSA are terminated in accordance with their terms prior to the first Closing under the APA, this Letter shall also terminate and will have no further force and effect.

8. Limitations on Losses. Under no circumstance shall either party be liable to the other Party under this Letter for punitive damages or indirect, special or incidental damages, or damage to reputation, arising out of or in connection with any breach or alleged breach of any of the terms herein, including damages alleged as a result of tortious conduct.

9. Governing Law; Submission to Jurisdiction. This Letter is made under the laws of the Province of Alberta and the Federal Laws of Canada applicable therein and shall for all purposes be construed in accordance with and governed by the laws of the Province of Alberta and the Federal Laws of Canada applicable therein (excluding the laws applicable to conflicts of law). The parties hereto agree that all disputes and claims,

whether for damages, specific performance, injunction or otherwise, both at law and equity, arising out of or in any connection with this letter shall be brought in the Courts of the Province of Alberta located in the City of Calgary and hereby attorns to the exclusive jurisdiction of such court and service of process in any such suit being made upon such person by mail at the address specified in herein. Each Party hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient court.

10. Waiver of Jury Trial; Limitation on Damages. Each Party hereto hereby waives its right to a jury trial with respect to any action or claim arising out of any dispute in connection with this Letter or any rights or obligations hereunder or the performance of such rights and obligations. Except as prohibited by law, each of the Party hereto hereby waives any right it may have pursuant to this Letter to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages that are in excess of one times the losses incurred.

11. Notices and correspondence relating to this Letter shall be addressed as follows:

To: Nortel Networks Limited
3500 Carling Avenue
Nepean, Ontario Canada K2H 8E9
Attention: Vice-President, Supply Management
Fax: 613-763-8946

with required copies to:

Nortel Networks Limited
8600 Dixie Road, Suite 100
Brampton, Ontario Canada L6T 5P6
Attention: Secretary
Fax: (905) 863-8386

and: Nortel Networks Inc.
220 Athens Way, Suite 300
Nashville, Tennessee USA 37228-1397
Attention: Law Department
Fax: (615) 432-4067

To: Flextronics International Limited

Attention:

[REMAINDER OF PAGE INTENTIONALLY BLANK]

DATED: June 29, 2004.

NORTEL NETWORKS LIMITED

By: /s/ CHAHRAM BOLOURI
Name: Chahram Bolouri
Title: President, Global Operations

By: _____
Name: _____
Title: _____

AGREED TO: June 29, 2004.

FLEXTRONICS INTERNATIONAL LTD.,
Acting through its Hong Kong branch

By: /s/ MANNY MARIMUTHU
Name: Manny Marimuthu
Title: Authorized Signatory

FLEXTRONICS TELECOM SYSTEMS, LTD.

By: /s/ MANNY MARIMUTHU
Name: Manny Marimuthu
Title: Authorized Signatory

SCHEDULE A

(i) In respect of those applicable UK Transferring Employees governed by the Manufacturing Operations Collective Bargaining Redundancy Agreement between Standard Telephones and Cables (Northern Ireland) Limited and the Amalgamated Union of Engineering Workers and others dated 1st February 1985 (the "Operations Redundancy Agreement") such additional severance costs as are required to be paid (for the absence of doubt, in addition to those severance costs payable pursuant to clause 2 (iv)(a) and (b) of this Side Letter) in accordance with that Operations Redundancy Agreement.

(ii) In respect of those applicable UK Transferring Employees governed by the Test Technicians Collective Bargaining Redundancy Agreement between Nortel Networks UK Limited and Amicus dated 9th July 2002 (the "Technicians Redundancy Agreement") such additional severance costs as are required to be paid (for the absence of doubt, in addition to those severance costs payable pursuant to clause 2 (iv)(a) and (b) of this Side Letter) in accordance with that Technicians Redundancy Agreement.

(iii) In respect of all other applicable UK Transferring Employees additional severance costs in accordance with the calculation set out below;

(i) ½ weeks Pay per year of completed service.

PLUS

(ii) for employees under 45 years of age, 1 weeks Pay per year of completed service to a maximum 12 weeks Pay.

(iii) for employees over 45 years of age, 1.5 weeks pay per year of completed service to a maximum of 18 weeks Pay.

(iv) such additional *ex gratia* amounts as the Seller and Purchaser shall mutually agree are applicable to certain UK Transferring Employees between fifty (50) and sixty (60) years of age.

Where "Pay" is defined as the applicable UK Transferring Employee' s contractual pay.

Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

SCHEDULE B
(Letter Agreement dated June 29, 2004)

DESIGN EMPLOYEES

Seller will pay Severance Costs incurred by Purchaser relating to the Termination of employment of Design Employees subject to the following:

1. Notwithstanding Section 4 of the Letter, Seller has no obligation to pay Severance Costs relating to Design Employees unless the Termination is as a result of a decrease in workload, caused by a reduction in services required by the Seller and its Affiliates, to a level below that which existed at the applicable Employment Transfer Date;

2. [ ]; and

3. Seller will reimburse the Purchaser, or Designated Purchaser as the case may be: (i[ ] percent of the Severance Costs it may incur in [ ] period following the first Closing Date; and [ ] percent of the Severance Costs it may incur in the period that is between [ ] following the first Closing Date.

4. The following other provisions of the Letter shall apply to Design Employees *mutatis mutandis:* Sections 1 through 3, 4(a), Section 4(c), Section 5(a), Section 5(d) and Sections 6 through 11.

SCHEDULE "B"
(Letter Agreement dated May 6, 2006)
DESIGN EMPLOYEES

Seller will pay Severance Costs incurred by Purchaser relating to the Termination of employment of Design Employees subject to the following:

1. Notwithstanding Section 5 of the Amended and Restated Letter Agreement, Seller has no obligation to pay Severance Costs relating to Design Employees unless the Termination is as a result of a decrease in workload, caused by a reduction in services required by the Seller and its Affiliates, to a level below that which existed at the applicable Employment Transfer Date;

2. [ ]; and

3. Seller will reimburse the Purchaser, or Designated Purchaser as the case may be: (i) [ ] percent of the Severance Costs it may incur in the initial [ ] period following the first Closing Date; and [ ] percent of the Severance Costs it may incur in the period that is between [ ] following the first Closing Date.

4. The following other provisions of the Amended and Restated Letter Agreement shall apply to Design Employees *mutatis mutandis*: Sections 1 through 4, 5(a), Section 5 (c), Section 6(a), Section 6(d) and Sections 7 through 12.

Confidential Portions in Exhibit C omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

Exhibit 10.10

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re NORTEL NETWORKS CORP. SECURITIES LITIGATION	x	Civil Action No. 01-CV-1855 (RMB)
	:	
	:	
	:	
	:	CLASS ACTION
This Document Relates To:	:	
	:	
ALL ACTIONS.	:	
	x	

STIPULATION AND AGREEMENT OF SETTLEMENT (NORTEL I)

This Stipulation and Agreement of Settlement (the "Stipulation") is submitted in the above-captioned *In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01 Civ. 1855 (RMB) (the "Nortel I U.S. Action"), pursuant to Rule 23 of the Federal Rules of Civil Procedure. Subject to the approval of the United States District Court for the Southern District of New York, this Stipulation is entered into between Lead Plaintiff and Class Representative Ontario Public Service Employees' Union Pension Plan Trust Fund ("OPTrust") (hereinafter "Lead Plaintiff"), on behalf of itself and the U.S. Global Class (as defined herein), and defendant Nortel Networks Corporation ("Nortel"), by and through their respective counsel.

The following separate class actions in British Columbia, Ontario and Quebec, raising claims on behalf of persons who purchased Nortel Securities (as defined herein), are also being settled contemporaneously as part of a single settlement of those actions and the Nortel I U.S. Action on the terms herein: *Association de Protection des Epargnants et Investisseurs du Quebec v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No: 500-06-000126-017

(the "Quebec A.P.E.1.Q. Action"), *Frohlinger v. Nortel Networks Corporation et al*., Ontario Superior Court of Justice, Court File No. 02-CL-4605 (Ont. Sup.Ct. J.) (the "Ontario Frohlinger Action"); and Jeffery et al. v. Nortel Networks Corporation et al., Supreme Court of British Columbia, Vancouver Registry Court File No. S015159 (B.C.S.C.) (the "B.C. Jeffery Action") (collectively, the "Nortel Canadian Actions").

A separate class action brought on behalf of persons who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock from April 24, 2003 through April 27, 2004, inclusive (the "Nortel II Class Period"), captioned *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP) (the "Nortel II U.S. Action"), is also pending in the United States District Court for the Southern District of New York and is being settled contemporaneously herewith.

Also being settled contemporaneously herewith are the following separate class actions brought in Ontario and Quebec as part of a single settlement including the Nortel II U.S. Action: *Gallardi et al. v. Nortel Networks Corp. et al*., Ontario Superior Court of Justice, Court File No. 05-CV-285606CP (the "Ontario Gallardi Action"); and *Skarstedt v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No: 500-06-000277-059 (the "Quebec Skarstedt Action") (collectively, the "Nortel II Canadian Actions").

It is a condition to the Settlement (as defined herein) that the Nortel I U.S. Action and the Nortel I Canadian Actions (collectively, the "Nortel I Actions"), as well as the Nortel II U.S. Action and the Nortel II Canadian Actions (collectively, the "Nortel II Actions") be settled contemporaneously and that the Settlement and the settlement of the Nortel II Actions be approved by all of the respective courts.

WHEREAS:

A. Beginning on February 16, 2001, several putative class actions on behalf of persons who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period October 24, 2000 through February 15, 2001, inclusive, were filed against Nortel, John Roth, Clarence Chandran and Frank Dunn (the "Individual Defendants") alleging violations of Sections 10(b) and 20(a) of the (United States) Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder and subsequently consolidated by order of the United States District Court for the Southern District of New York, entered October 16, 2001, under the caption *In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01 Civ. 1855 (RMB);

B. On January 18, 2002, Lead Plaintiff filed its Second Consolidated Amended Class Action Complaint (the "Complaint") alleging that Nortel with the participation of the Individual Defendants made materially false and misleading statements and omissions in Nortel' s financial reports, in violation of United States Generally Accepted Accounting Principles ("GAAP"), and in other public documents disseminated to the investing public by Nortel, in the course of fulfilling its reporting obligations as a public company, thereby artificially inflating the price of the Nortel Securities and damaging members of the U.S. Global Class;

C. The Complaint also alleges that during the Class Period, Nortel with the participation of the Individual Defendants materially misrepresented Nortel' s revenues and earnings in public reports and statements disseminated to the investing public. The Complaint further alleges that these material misrepresentations resulted in Nortel' s issuance of financial statements, and other public statements regarding Nortel' s future business prospects, which violated Section 10(b) of the Exchange Act, Rule 106-5 promulgated thereunder and Section

20(a) of the Exchange Act. The Complaint further alleges that, as a result of Defendants' materially false and misleading statements, the price of Nortel common stock was artificially inflated during the Class Period, thereby causing damage to members of the U.S. Global Class who purchased Nortel common stock or call options on Nortel common stock or who wrote (sold) put options on Nortel common stock during the Class Period;

D. Nortel, on behalf of Clarence Chandran, Frank Dunn, John A. Roth and itself, filed a motion to dismiss the Complaint. By Decision and Order dated January 3, 2003, the Court denied Defendants' motion to dismiss the Complaint;

E. On March 21, 2003, Lead Plaintiff moved to certify the Nortel I U.S. Action as a class action and to certify OPTrust as class representative for that action;

F. By Order dated September 5, 2003, the United States District Court for the Southern District of New York certified the Nortel I U.S. Action to proceed as a class action and certified OPTrust as the class representative on behalf of a class "consisting of all persons and entities who, during the period October 24, 2000 and continuing through and including February 15, 2001, purchased Nortel common stock or call options or wrote (sold) Nortel put options, and who suffered damages thereby, including, but not limited to, those persons who traded in Nortel Securities on the New York Stock Exchange and/or Toronto Stock Exchange." Excluded from the class are the Defendants, members of any of the Individual Defendants' immediate families, any entity in which any Defendant has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the defendants. A notice of the pendency of this action as a class action (the "Notice of Pendency") dated March 10, 2004 was mailed to potential

class members beginning on April 12, 2004 and a summary notice was published once in English in the national edition of The Wall Street Journal, on April 12, 2004, twice in English in the national editions of The National Post and The Globe and Mail, on April 12, 2004 and April 15, 2004, twice in English in the Toronto Star, The Vancouver Sun, and The Vancouver Province on April 12, 2004 and April 15, 2004, and once in French in La Presse on April 15, 2004. Over 591,700 individual copies of the Notice of Pendency were mailed. 1,638 requests for exclusion from the class were received and were filed with the United States District Court for the Southern District of New York (see Affidavit of Jack R. DiGiovanni dated July 2, 2004). A list of those 1,638 persons and entities who requested exclusion is annexed hereto as Tab 1 to Exhibit J;

G. On July 17, 2002, the Ontario Frohlinger Action was commenced in the Ontario Superior Court of Justice against Nortel and other defendants through the issuance of a Statement of Claim. On September 15, 2003, the claim was amended and a Fresh As Amended Statement of Claim was filed. That claim was subsequently amended pursuant to the Order of the Honourable Justice Winkler dated June 8, 2004 and a Second Fresh As Amended Statement of Claim was filed on January 13, 2005. The claim alleged that Nortel with the participation of certain of its officers negligently made materially false and misleading statements and omissions in Nortel' s financial reports and public statements, which had the effect of artificially inflating the price of Nortel' s securities during the Class Period, thereby causing damage to members of the class. The claim further alleged that Nortel and certain of its officers breached corporate and securities legislation, including the *Canada Business Corporations Act, the Ontario Securities Act* and the Canadian Competition Act;

H. The plaintiffs in the Ontario Frohlinger Action filed with the Ontario Superior Court of Justice and delivered to the defendants their motion for certification in July 2004. Counsel in the Ontario Frohlinger Action have attended a number of case conferences before Justice Winkler as the proceeding moved towards a certification hearing;

I. On September 17, 2001, the B.C. Jeffery Action was commenced by the plaintiffs in the Supreme Court of British Columbia and has proceeded before the Honourable Justice Groberman. The B.C. Jeffery Action alleges that Nortel and the other defendants named therein breached the British Columbia *Securities Act* when they made materially false, inaccurate and misleading statements when they issued revenue and earnings guidance for the fourth quarter and fiscal year 2000 and the first quarter and fiscal year 2001. The plaintiffs and defendants in that action have made a number of appearances before Mr. Justice Groberman in the conduct of that action;

J. On February 22, 2001, the Quebec A.P.E.I.Q. Action was commenced in the Superior Court of Quebec against Nortel through the issuance of a Motion for Authorization to Institute a Class Action. The claim essentially alleges that representations made by Nortel in a press release dated January 18, 2001, as to its financial results, were false. On May 11, 2001, Nortel filed a Motion to Dismiss the Petitioner' s Motion for Authorization to Institute a Class Action based on the factual allegations lacking substantial connection to Quebec and the inclusion of the putative class in Quebec in the Ontario Frohlinger Action. The Motion to Dismiss the Quebec A.P.E.I.Q. Action was heard on November 6, 2001, and the court deferred any determination on the Motion to the judge who would hear the Motion for Authorization to Institute a Class Action. Nortel sought leave to appeal this decision but the Quebec Court of Appeal refused leave to appeal;

K. Following the announcement of the settlement agreement in principle in February 2006 to settle the Nortel I Actions and the Nortel II Actions as part of a global settlement, Lead Plaintiffs Counsel and Nortel' s Counsel have worked with plaintiffs' counsel in the Nortel 1 Canadian Actions and the Nortel 11 Actions to coordinate the settlement process to obtain approvals of the global settlement by the United States District Court for the Southern District of New York (the "Court") and by the applicable Canadian courts, and plaintiffs' counsel in the Nortel II Actions and the Nortel I Canadian Actions have been consulted and participated in the drafting of this Stipulation and other settlement documents;

L. Defendants in the Nortel I Actions deny any wrongdoing whatsoever, and this Stipulation shall in no event be construed or deemed to be evidence of or an admission or concession on the part of any defendant with respect to any claim of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that the defendants have asserted;

M. The parties to this Stipulation recognize that the Norte11 U.S. Action has been filed by the Lead Plaintiff and defended by the Defendants in good faith, that the Nortel 1 U.S. Action is being voluntarily settled after advice of counsel, and that the terms of the Settlement are fair, reasonable and adequate. This Stipulation shall not be construed or deemed to be a concession by Lead Plaintiff or any Class Member of any infirmity in the claims asserted in the Nortel I U.S. Action or any other action;

N. Lead Plaintiff' s Counsel has conducted investigations relating to the claims and the underlying events and transactions alleged in the Nortel 1 U.S. Action. Lead Plaintiffs Counsel has analyzed the evidence adduced during pretrial discovery and has researched the

applicable law with respect to the claims of the Lead Plaintiff and the U.S. Global Class against the Defendants and the potential defenses thereto;

O. The parties recognize that the claims asserted in either of the Nortel I Actions or the Nortel Il Actions, if proved by the plaintiffs in those actions, could have exposed Nortel to substantial damages awards. Accordingly, the parties considered that a resolution of the Nortel I Actions and the Nortel II Actions was advisable from the point of view of all parties;

P. With the assistance of the Honorable Robert W. Sweet, United States District Court Judge, acting as a special mediator, the Lead Plaintiff in the Nortel I U.S. Action and the Lead Plaintiffs in the Nortel H U.S. Action, directly and by their counsel, have conducted discussions and arm' s-length negotiations with Nortel' s Counsel with respect to a global compromise and settlement of the Nortel I Actions and the Nortel II Actions and with a view to settling the issues in dispute and achieving the best relief possible consistent with the interests of the overall classes in the Nortel I Actions and the Nortel II Actions;

Q. Nortel considers that, in order for it to achieve an end to litigation, it is a necessary condition to the settlement of the Nortel I U.S. Action that as part of the Settlement the applicable Canadian Courts approve the Settlement with respect to the Nortel I Canadian Actions and that the Settlement be similarly conditional on the approval of the separate settlement reached with respect to the Nortel II Actions;

R. Based upon their investigation and pretrial discovery as set forth above, Lead Plaintiff and its counsel have concluded that the terms and conditions of this Stipulation are fair, reasonable and adequate to Lead Plaintiff and the U.S. Global Class, and are in their best interests, and Lead Plaintiff has agreed to settle the claims raised in the Nortel I U.S. Action

pursuant to the terms and provisions of this Stipulation, after considering (a) the substantial benefits that the members of the U.S. Global Class will receive from settlement of the Nortel I U.S. Action, (b) the attendant risks of litigation, and (c) the desirability of permitting the Settlement to be consummated as provided by the terms of this Stipulation; and

S. Unless Nortel registers the Gross Settlement Shares (as defined herein), Nortel will issue the Gross Settlement Shares in reliance on the exemption from registration under the (United States) Securities Act of 1933, 15 U.S.C. §77c(a)(1), as amended, pursuant to Section 3(a)(l0) thereunder based on the Courts' approval of the fairness of the terms and conditions of the Settlement following a fairness hearing open to everyone to whom any Gross Settlement Shares would be issued in the proposed Settlement, with adequate notice thereof having been given to all those persons. In Canada, Nortel intends to issue the Gross Settlement Shares in reliance upon the Exemptive Relief (as defined herein) granted by the applicable securities regulatory authorities. However, if Nortel determines that such Exemptive Relief is unlikely to be granted, Nortel would qualify the Gross Settlement Shares by a prospectus filed in each Canadian province and territory.

NOW THEREFORE, without any admission or concession on the part of Lead Plaintiff of any lack of merit of the Nortel I U.S. Action whatsoever, and without any admission or concession of any liability or wrongdoing or lack of merit in the defenses whatsoever by Defendants, it is hereby STIPULATED AND AGREED, by and between the parties to this Stipulation, through their respective counsel, subject to approval of the respective Courts pursuant to, as the case may be, Rule 23(e) of the (United States) Federal Rules of Civil Procedure, Article 1025 of the Quebec *Code of Civil Procedure*, Section 29 of the Ontario *Class Proceedings Act, 1992* and Section 35 of the British Columbia Class *Proceedings Act*, in

consideration of the benefits flowing to the parties hereto from the Settlement herein set forth, that all Settled Claims (as defined herein), as against the Released Parties (as defined herein), and all Settled Defendants' Claims (as defined herein) shall be compromised, settled, released and dismissed with prejudice, upon and subject to the following terms and conditions:

DEFINITIONS

1. As used in this Stipulation, the following terms shall have the following meanings:

(a) "A.P.E.I.Q." means Association de Protection des Epargnants et Investisseurs du Quobec.

(b) "Authorized Claimant" means a Class Member who submits a timely and valid Proof of Claim form to the Claims Administrator.

(c) "British Columbia Class Counsel" means Klein Lyons.

(d) "B.C. Jeffery Action" means *Jeffery et al. v. Nortel Networks Corporation et al*., Supreme Court of British Columbia, Vancouver Registry Court File No. S015159.

(e) "British Columbia Class" means the class to be certified in the B.C. Jeffery Action, for the purposes of settlement only, comprised of all persons and entities who, while residing in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive. Excluded from the British Columbia Class are the Defendants, members of

any of the Individual Defendants' immediate families, any entity in which any Defendant has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the Defendants. Also excluded from the British Columbia Class are any putative members of the British Columbia Class who exclude themselves by timely filing a request for exclusion in accordance with the requirements set forth in the Notice.

(f) Columbia Class Counsel and Quebec Class Counsel.

(g) "Canadian Classes" means the Ontario National Class, the British Columbia Class and the Quebec Class.

(h) "Canadian Courts" means the Superior Court of Quebec, the Ontario Superior Court of Justice and the Supreme Court of British Columbia.

(i) "Canadian Representative Plaintiffs" means Andre Dussault, A.P.E.I.Q., Leslie Frohlinger, Janie Jeffery and Ronald Mensing.

(j) "Cash Settlement Amounts" means the amounts specified in ¶[4(a), (b) and (e) hereof.

(k) "Claims Administrator" means The Garden City Group, Inc. ("GCG"), which shall administer the Settlement.

(l) "Class" means all members of the U.S. Global Class and the Canadian Classes.

(m) "Class Member" means a member of the Class.

(n) "Class Distribution Order" has the meaning defined in ¶ 9 hereof.

(o) "Class Period" means, for the purposes of this Settlement only, the period of time between October 24, 2000 through February 15, 2001, inclusive.

(p) "Court" means the United States District Court for the Southern District of New York.

(q) "Courts" means the United States District Court for the Southern District of New York, the Ontario Superior Court of Justice, the Superior Court of Quebec and the Supreme Court of British Columbia.

(r) "Defendants" means Nortel and the Individual Defendants.

(s) "Derivative Application" means the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059 for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the Released Parties.

(t) "Effective Date" means the date upon which the Settlement contemplated by this Stipulation shall become effective, as set forth in ¶ 24 hereof.

(u) "Escrow Agents" means (i) with respect to the escrow agreement dated as of April 2, 2006 and the terms of this Stipulation, Milberg Weiss Bershad & Schulman LLP and their successors, in each case acting as agents for the Class, and (ii)

with respect to the escrow agreement dated as of May 31, 2006 and the terms of this Stipulation, Milberg Weiss Bershad & Schulman LLP and Koskie Minsky LLP, and their successors, in each case acting as agents for the Class, such successors in both (i) and (ii) to be agreed upon by Plaintiffs' Counsel and the parties to the existing escrow agreements, as approved by the Courts, if necessary. Such parties shall use reasonable efforts to identify and appoint a successor escrow agent(s) as soon as is practicable.

(v) "Exemptive Relief" has the meaning defined in ¶ 24(i)(1) hereof.

(w) "Final" or "Finality", with respect to the Judgments (as defined herein), means: (a) if no appeal is filed, the expiration date of the time provided for under the corresponding rules of the applicable court or legislation for filing or noticing of any appeal from the Courts' Judgments approving the Settlement; or (b) if there is an appeal from the Judgments, the date of (i) final dismissal of any appeal from the Judgments, or the final dismissal of any proceeding on certiorari or otherwise to review the Judgments; or (ii) the date of final affirmance on an appeal of the Judgments, the expiration of the time to file a petition for a writ of certiorari or other form of review, or the denial of a writ of certiorari or other form of review of the Judgments, and, if certiorari or other form of review is granted, the date of final affirmance of the Judgments following review pursuant to that grant. Any proceeding or order, or any appeal or petition for a writ of certiorari or other form of review pertaining solely to (i) any application for attorneys' fees, costs or expenses, and/or (ii) the plan of allocation, shall not in any way delay or preclude the Judgments from becoming Final.

(x) "GCG" means The Garden City Group, Inc.

(y) “Gross Cash Settlement Fund” means the cash amounts paid or to be paid to the Escrow Agents pursuant to l 4(a), (b), and (e) hereof, which consists of (i) Two Hundred Ninety Million, One Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents (US$290,162,428.48), being the sum of Two Hundred Eighty-Seven Million, Five Hundred Thousand United States Dollars (US$287,500,000) plus Two Million, Six Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents (US$2,662,428.48), paid to the Escrow Agents by Nortel on June 1, 2006, plus (ii) Two Hundred Fifteen Million United States Dollars (US$215,000,000) paid by Nortel’ s insurers, plus (iii) one-quarter of any actual gross recovery by Nortel as a result of the action referenced in ¶ 4(e) hereof, plus (iv) any interest on or other income or gains in respect of the amounts in (i), (ii), (iii) and (iv) earned while such amounts are held by the Escrow Agents, less (v) Sixty Six Million, Four Hundred Ninety-Five Thousand United States Dollars (US$66,495,000) and the interest thereon transferred to the escrow agent in the Nortel II Actions for the benefit of the Nortel II Class (pursuant to ¶ 4(c) hereof).

(z) “Gross Settlement Fund” means the Gross Cash Settlement Fund plus the Gross Settlement Shares.

(aa) “Gross Settlement Shares” means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the Settlement, as may be adjusted in accordance with ¶4(d) hereof.

(bb) “Individual Defendants” means Clarence Chandran, Frank Dunn, and John A. Roth.

(cc) "Judgment" or "Judgments" means the proposed judgments and orders to be entered by the respective Courts approving the Settlement substantially in the forms attached hereto as Exhibits B and D − F.

(dd) "Lead Plaintiff' or "OPTrust" means Ontario Public Service Employees' Union Pension Plan Trust Fund.

(ee) "Lead Plaintiff' s Counsel" means the law firm of Milberg Weiss Bershad & Schulman LLP, with the assistance of the Canadian law firm Koskie Minsky LLP.

(ff) "Net Cash Settlement Fund" has the meaning defined in ¶ 5 hereof.

(gg) "Net Settlement Shares" has the meaning defined in ¶ 4(d) hereof.

(hh) "Net Settlement Fund" means the Net Cash Settlement Fund and the Net Settlement Shares.

(ii) "Nortel" means Nortel Networks Corporation.

(jj) "Nortel I Actions" means the Nortel I Canadian Actions and the Nortel I U.S. Action.

(kk) "Nortel I Canadian Actions" means the B.C. Jeffery Action, the Ontario Frohlinger Action and the Quebec A.P.E.I.Q. Action.

(ll) "Nortel I Defendants" means Norte' , Clarence Chandran, Frank Dunn, John Roth, F. William Conner, Chahram Bolouri, William R. Hawe, and Deloitte & Touche LLP.

(mm) "Nortel I U.S. Action" means *In re Norte' Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01 CV-1855 (RMB).

(nn) "Nortel II Actions" means the Nortel II Canadian Actions and the Nortel II U.S. Action.

(oo) "Nortel II Canadian Actions" mean the Quebec Skarstedt Action and the Ontario Gallardi Action.

(pp) "Nortel II Class" means all persons and entities who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive, and for purposes of the Nortel II U.S. Action, who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from the Nortel II Class are (i) the defendants Nortel, Frank Dunn, Douglas C. Beatty, Michael J. Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr.; (ii) James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia); (iii) members of the immediate family of each of the defendants named above

and/or any of the individuals referenced above; (iv) any entity in which any defendant named above and/or any of the individuals referenced above has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or director of Nortel or any of its subsidiaries or affiliates during the Nortel II Class Period; and (vii) the legal representatives, heirs, predecessors, successors or assigns of any of the excluded persons or entities. Also excluded from the Nortel II Class are any putative members of the Nortel II Class who exclude themselves by timely filing a request for exclusion in accordance with the requirements set forth in the Nortel II Notice.

(qq) "Nortel H Class Period" means, for purposes of this Settlement only, the period of time between April 24, 2003 through April 27, 2004, inclusive.

(rr) "Nortel II U.S. Action" means *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP).

(ss) "Nortel II Notice" means the Notice of Pendency and Certification of Class Actions and Proposed Settlements, Motions for Attorneys' Fees and Settlement Fairness Hearings, which is to be sent to members of the Nortel II Class.

(tt) "Nortel common stock" or "common stock of Nortel" means common shares without nominal or par value in the authorized capital of Nortel.

(uu) "Nortel Securities" means Nortel common stock or call options on Nortel common stock or put options on Nortel common stock.

(vv) "Nortel' s Counsel" means the law firms of Shearman & Sterling LLP in the United States and Lenczner Slaght Royce Smith Griffin LLP and Ogilvy Renault LLP in Canada.

(ww) "Notice" means the Notice of Certification in Canada and Proposed Settlements of Class Actions, Motions for Attorneys' Fees and Settlement Fairness Hearings, which is to be sent to members of the Class substantially in the form attached hereto as Tab 1 to Exhibit A.

(xx) "Notice of Pendency" means the notice dated March 10, 2004 that was mailed to Class Members beginning on April 12, 2004 notifying them of the pendency of the Nortel 1 U.S. Action, attached hereto as Exhibit J.

(yy) "Ontario *Gallardi Action" means Gallardi v. Nortel Networks Corporation et al*., Ontario Superior Court of Justice, Court File No. 05-CV-285606CP.

(zz) "Ontario Frohlinger Action" means *Frohlinger v. Nortel Networks Corporation et al*., Ontario Superior Court of Justice, Court File No. 02-CL-4605.

(aaa) "Ontario National Class" means the class to be certified, for the purposes of settlement only, by the Ontario Superior Court of Justice in the Ontario Frohlinger Action comprising all persons or entities, except members of the British Columbia Class and the Quebec Class, who, while residing in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive. Excluded from the Ontario National Class are the

Defendants, members of any of the Individual Defendants' immediate families, any entity in which any Defendant has a controlling interest or which is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the Defendants. Also excluded from the Ontario National Class are any putative members of the Ontario National Class who exclude themselves by timely filing a request for exclusion in accordance with the requirements set forth in the Notice.

(bbb) "Ontario National Class Counsel" means Rochon Genova LLP and Lerners LLP.

(ccc) "Opt-out Threshold" has the meaning set forth in ¶ 23 and in the Supplemental Agreement.

(ddd) "OPTrust" or "Lead Plaintiff" means Ontario Public Service Employees' Union Pension Plan Trust Fund.

(eee) "Order for Notice and Hearing" means the proposed order preliminarily approving the Settlement and directing notice thereof to the Class substantially in the form attached hereto as Exhibit A.

(fff) "Plaintiffs' Counsel" means Lead Plaintiffs Counsel, Canadian Class Counsel and any other counsel representing Class Members.

(ggg) "Proof of Claim" means the form substantially in the form attached as Tab 2 to Exhibit A hereto.

(hhh) "Publication Notice" means the summary notice of proposed Settlement and hearing for publication substantially in the form attached as Tab 3 to Exhibit A.

(iii) "Quebec A.P.E.I.Q. Action" means Association *de Protection des Epargnants et Investisseurs du Quebec v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No: 500-06-000126-017.

(jjj) "Quebec Class" means the class to be authorized by the Superior Court of Quebec in the Quebec A.P.E.I.Q. Action comprised of all persons who, while residing in Quebec at the time, purchased Nortel common stock or call options on Norte/ common stock or wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive. Excluded from the Class are the Defendants, members of any of the Individual Defendants' immediate families, any entity in which any Defendant has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the Defendants. Also excluded from the Quebec Class are any putative members of the Quebec Class who exclude themselves by timely filing a request for exclusion in accordance with the requirements set forth in the Notice.

(kkk) "Quebec Class Counsel" means Belleau Lapointe S.A. and Unterberg, Labelle, Lebeau S.E.N.C.

(lll) "Quebec Skarstedt Action" means *Skarstedt v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No: 500-06-000277-059.

(mmm) “Released Parties” means any and all of the Nortel I Defendants, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any Nortel I Defendant has a controlling interest or which is related to or affiliated with any of the Nortel I Defendants, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the Nortel l Defendants.

(nnn) “Settled Claims” means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys’ fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or unmatured, whether class or individual in nature, including both known claims and Unknown Claims (as defined herein), (i) that have been asserted in any of the Nortel I Actions against any of the Released Parties, or (ii) that could have been asserted in any forum by the Class Members against any of the Released Parties, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Nortel I Actions and that relate to the purchase of Nortel common stock or call

options on Nortel common stock or the writing (sale) of put options on Nortel common stock during the Class Period, or (iii) any oppression or other claims under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the Nortel I Actions. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the (United States) Employee Retirement Income Security Act of 1974, as amended, 29 U.S.C. § 1001, et seq. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include: (a) the action in *Rohac et al. v. Nortel Networks Corp. et al*., Ontario Superior Court of Justice, Court File No. 04-CV-3268 and (b) the Derivative Application.

(ooo) "Settled Defendants' Claims" means any and all claims, rights or causes of action or liabilities whatsoever, whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, including both known claims and Unknown Claims, that have been or could have been asserted in the Nortel I Actions or any forum by the Nortel I Defendants or any of them or the successors and assigns of any of them against any of the Lead Plaintiff, Canadian Representative Plaintiffs, any Class Members or their attorneys and that arise out of or relate in any way to the institution, prosecution, or settlement of the Nortel I Actions (except Settled Defendants' Claims does not include all claims, rights or causes of action or liabilities whatsoever related to the enforcement of the Settlement, including,

without limitation, any of the terms of this Stipulation or orders or judgments issued by the Courts in connection with the Settlement, confidentiality obligations or in respect of the Derivative Application).

(ppp) "Settlement" means the global settlement of the Nortel T Actions contemplated by this Stipulation.

(qqq) "Settlement Amount" means (i) Two Hundred Ninety Million, One Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents (US$290,162,428.48) as set out in ¶ 4(a) hereof; (ii) Two Hundred Fifteen Million United States Dollars (US$215,000,000) as set out in ¶ 4(b) hereof; (iii) the Gross Settlement Shares issued by Nortel as set out in ¶ 4 (d) hereof; and (iv) one-quarter of any actual gross recovery by Nortel referenced in ¶ 4(e) hereof as a result of the action referenced therein; less (v) Sixty-Six Million, Four Hundred and Ninety-Five Thousand United States Dollars (US$66,495,000) as set out in ¶ 4(c) hereof.

(rrr) "Stipulation" means this Stipulation and Agreement of Settlement.

(sss) "Taxes" means (i) any and all applicable taxes, duties and similar charges imposed by a government authority (including any estimated taxes, interest or penalties) arising in any jurisdiction, if any (A) with respect to the income or gains earned by or in respect of the Gross Cash Settlement Fund, including, without limitation, any taxes that may be imposed upon Nortel or their counsel with respect to any income or gains earned by or in respect of the Gross Cash Settlement Fund for any period while it is held by the Escrow Agents during which the Gross Cash Settlement Fund does not qualify as a Qualified Settlement Fund for federal or state income tax purposes; (B) with

respect to the Gross Settlement Shares, if issued to the Escrow Agents, prior to their distribution to the Authorized Claimants or Lead Plaintiff' s Counsel; or (C) by way of withholding as required by applicable law on any distribution by the Escrow Agents or the Claims Administrator of any portion of the Gross Settlement Fund to Authorized Claimants and other persons entitled hereto pursuant to this Stipulation; and (ii) any and all expenses, liabilities and costs incurred in connection with the taxation of the Gross Settlement Fund (including without limitation, expenses of tax attorneys and accountants). For the purposes of paragraph (A) hereof, taxes imposed on Nortel shall include amounts equivalent to taxes that would be payable by Nortel but for the existence of relief from taxes by virtu: of loss carryforwards or other tax attributes, determined by Nortel, acting reasonably, and accepted by the Escrow Agents, acting reasonably.

(ttt) "Unknown Claims" means any and all Settled Claims which any of the Lead Plaintiff, Canadian Representative Plaintiffs, or Class Members does not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties and any Settled Defendants' Claims which any Nortel I Defendant does not know or suspect to exist in his, her or its favor, as of the Effective Date, which if known by him, her or it might have affected his, her or its decision(s) with respect to the Settlement. With respect to any and all Settled Claims and Settled Defendants' Claims, the parties stipulate and agree that, upon the Effective Date, the Lead Plaintiff, Canadian Representative Plaintiffs and the Nortel I Defendants shall expressly waive, and each Class Member shall be deemed to have waived, and by operation of the Judgments shall have expressly waived, any and all provisions, rights and benefits conferred by any law of any state, province or territory of the United States or Canada, or principle of common

law or otherwise, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

Lead Plaintiff, Canadian Representative Plaintiffs and Nortel acknowledge, and Class Members by operation of law shall be deemed to have acknowledged, that the inclusion of "Unknown Claims" in the definition of Settled Claims and Settled Defendants' Claims was separately bargained for and was a key element of the Settlement.

(uuu) "U.S. Global Class" means all persons and entities who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Members of the Canadian Classes who suffered damages are included within the definition of U.S. Global Class, unless otherwise excluded by this definition. Excluded from the U.S. Global Class are the Defendants, members of the immediate families of any of the Individual Defendants, any entity in which any Defendant has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the Defendants. Excluded from the U.S. Global Class are any putative members of the U.S. Global Class who previously requested exclusion in response to the Notice of Pendency, as listed on Tab 1 to Exhibit J annexed hereto, save if they are also members of any of the Canadian Classes and do not elect to exclude themselves from such Canadian Classes (in which case they shall be

eligible to share in the proceeds of and will be bound by the terms of the Settlement). Also excluded from the U.S. Global Class are any putative members of the CIass who exclude themselves by timely requesting exclusion in accordance with the requirements set forth in the Notice.

SCOPE AND EFFECT OF SETTLEMENT

2. The obligations incurred pursuant to this Stipulation shall be in full and final disposition of the Nortel I U.S. Action as part of the Settlement and any and all Settled Claims as against all Released Parties and any and all Settled Defendants' Claims.

3. (a) Upon the Effective Date of the Settlement, Lead Plaintiff, Canadian Representative Plaintiffs (as confirmed in separate agreements) and all Class Members on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns, with respect to each and every Settled Claim, release and forever discharge, and are forever enjoined from prosecuting, any Settled Claims against any of the Released Parties, and shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit, cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date.

(b) Upon the Effective Date of this Settlement, defendants Nortel, Clarence Chandran and John Roth, on behalf of themselves, their personal

representatives, heirs, executors, administrators, trustees, successors and assigns, release and forever discharge each and every one of the Settled Defendants' Claims, and are forever enjoined from prosecuting the Settled Defendants' Claims against Lead Plaintiff, all Class Members and their respective counsel.

(c) Notwithstanding the provisions of ¶ 3(a) hereof, in the event that any of the Released Parties asserts against the Lead Plaintiff, any Class Member or their respective counsel, any claim that is a Settled Defendants' Claim, then Lead Plaintiff, such Class Member or counsel shall be entitled to use and assert such factual matters included within the Settled Claims only against such Released Party in defense of such claim but not for the purposes of asserting any claim against any Released Party.

THE SETTLEMENT CONSIDERATION

4. In consideration for the release and discharge provided for in ¶ 3(a) hereof, Nortel shall (i) pay or cause to be paid the Settlement Amount, as prescribed in ¶ 4(a) − (e), hereof; and (ii) adopt the corporate governance enhancements as prescribed in ¶ 4(f) hereof.

(a) On June 1, 2006, Nortel paid to the Escrow Agents as agents for the benefit of the Class: Two Hundred Ninety Million, One Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents (U.S.$290,162,428.48) being an amount computed as the sum of (i) Two Hundred Eighty-Seven Million, Five Hundred Thousand United States Dollars (U.S.$287,500,000), and (ii) Two Million, Six Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents

(US$2,662,428.48), which is an amount equal to the interest that would have been earned on the amount in (i) above from March 23, 2006 if invested at the compounded rate for 90-day United States Treasury securities.

(b) Nortel' s insurance carriers have paid to the Escrow Agents as agents for the benefit of the Class the sum of Two Hundred Fifteen Million United States Dollars (U.S.$215,000,000) (the "Insurers' Nortel I Cash Settlement Amount").

(c) Pursuant to an allocation agreement between the Lead Plaintiff in the Nortel I U.S. Action and the lead plaintiffs in the Nortel II U.S. Action, the Escrow Agents transferred Sixty-Six Million, Four Hundred Ninety Five Thousand United States Dollars (US$66,495,000), plus interest thereon from April 3, 2006 to the date of the transfer at the same interest rate earned on the Gross Cash Settlement Fund, from the Gross Cash Settlement Fund to the escrow agent in the Nortel II Actions.

(d) In addition, in payment of that part of the Settlement Amount described in part (iii) of the definition thereof, and at a time or times subsequent to the Effective Date, Nortel will, following receipt of the written instructions referred to below (which written instructions shall be deliverable only after the Effective Date), as promptly as possible using every commercially reasonable effort, issue and deliver the Gross Settlement Shares in whole or in part and from time to time (any such shares referred to herein as "Settlement Shares") as instructed in writing by Lead Plaintiffs Counsel, on notice to and in consultation with Canadian Class Counsel, which instructions, as relate to Authorized Claimants, shall include proportionate distributions to all Authorized Claimants based on the determinations made by the Claims

Administrator and approved by the Class Distribution Order. Upon receipt of such instructions, Nortel will cause its transfer agent to issue certificates evidencing such Settlement Shares registered in the respective names of the Authorized Claimants (or, if acceptable to Nortel, through "book-entry" registration of such Settlement Shares) and, to the extent applicable, Plaintiffs' Counsel (as awarded in accordance with ¶ 8 hereof) and in such amounts as set forth in such instructions, and deliver such certificates and/or notices to such Authorized Claimants and Plaintiffs' Counsel, as applicable. The reasonable costs and expenses of such physical delivery and extraordinary or expedited services, if any, of the transfer agent shall be paid out of the Gross Cash Settlement Fund. The Gross Settlement Shares issued and delivered by Nortel pursuant to this Settlement shall be freely tradeable upon receipt by the Authorized Claimants and Plaintiffs' Counsel, subject to (i) under U.S. securities laws, (A) the approvals required under U.S. state securities or "blue sky" laws referred to in ¶ 24(i)(4) hereof and (B) such limitations on resale as may be applicable with respect to Authorized Claimants who are "affiliates" of Nortel within the meaning of such securities laws, and (ii) such limitations on resale as may be applicable under Canadian securities laws or as contemplated by the Exemptive Relief. At the time of issuance and delivery, the Gross Settlement Shares shall be listed for trading on the New York Stock Exchange and the Toronto Stock Exchange, subject to official notice of issuance. Nortel shall at no cost to the Class either register the Gross Settlement Shares or confirm that it has received the written opinion of counsel substantially to the effect that the issuance and delivery to the Authorized Claimants and Plaintiffs' Counsel of the Gross Settlement Shares are exempt from registration under the (United States) Securities Act of 1933, 15 U.S.C. § 77c(a)(1), as amended, pursuant to

Section 3(a)(10) thereunder. Nortel shall also, at no cost to the Class, either qualify the Gross Settlement Shares pursuant to a prospectus filed under all applicable Canadian provincial and territorial securities legislation or confirm that it has received the written opinion of Canadian counsel substantially to the effect that the issuance and delivery to the Authorized Claimants and Plaintiffs' Counsel of the Gross Settlement Shares in Canada are exempt from the dealer registration and prospectus requirements of all applicable Canadian provincial and territorial securities legislation and that the first trade in any such province or territory of Gross Settlement Shares shall not be subject to the prospectus requirements of the securities legislation of such province or territory provided that the conditions on resale set forth in the Exemptive Relief are satisfied. Nortel understands that such written opinions may be relied upon by Nortel' s transfer agent. From the date hereof until the date or dates Nortel issues the Gross Settlement Shares upon Lead Plaintiff' s Counsel' s written instructions as aforesaid, the Gross Settlement Shares shall be appropriately adjusted to account for any stock splits, stock consolidations, stock dividends, return of capital, extraordinary distributions, recapitalization or sale of all or substantially all of Nortel' s assets or, by Nortel using every commercially reasonable effort to cause a counterparty to agree to the adjustment contemplated by this ¶ 4(d), any conversion or exchange of Nortel' s outstanding shares of common stock into other shares, securities or property resulting from an amalgamation or merger. The Gross Settlement Shares, less any Settlement Shares awarded to Plaintiffs' Counsel pursuant to ¶ 8 hereof (the "Net Settlement Shares"), shall be distributed to Authorized Claimants.

(e) In addition to the payment of those parts of the Settlement Amounts described in ¶4(a), (b) and (d) above, Nortel will also contribute to the Gross Cash Settlement Fund by payment to the Escrow Agents, one-quarter of the amount of any actual gross recovery (including the value of any monetary benefit that Nortel might receive from the defendants by way of forgiveness or cancellation of any monetary debt owed by Nortel to such defendants), excluding court-awarded attorneys' fees and expenses, if any, in the existing action commenced by Nortel against Frank Dunn, Douglas Beatty and Michael Gollogly in the Ontario Superior Court of Justice bearing Court File No. 05-CV-283095PD1.

(f) Within sixty (60) days after the Effective Date, Nortel shall adopt the corporate governance enhancements described in Appendix A of the Notice.

5. (a) The Gross Cash Settlement Fund shall be used to pay (i) the Notice and Publication Notice and administration costs referred to in ¶ 7 hereof, (ii) the attorneys' fee and expense award referred to in ¶ 8 hereof, and (iii) the remaining administration expenses referred to in ¶ 9 hereof. The balance of the Gross Cash Settlement Fund after the above payments and payment of any Taxes (as defined herein) shall be the Net Cash Settlement Fund. The Net Cash Settlement Fund shall be transferred following the Effective Date by the Escrow Agents to the Claims Administrator for distribution to Authorized Claimants as provided in ¶¶ 10-12 hereof. Any sums required to be held in escrow hereunder shall be held by the Escrow Agents as agents for the Class. All funds held by the Escrow Agents shall be deemed to be in the custody of the Courts until such time as the funds shall be distributed to Authorized Claimants or paid to the persons paying the same pursuant to this Stipulation and/or

further order of the Courts. The Escrow Agents shall invest any funds in excess of U.S.$l 00,000 in short term United States Agency or Treasury Securities (or a mutual fund invested solely in such instruments), and shall collect and reinvest all interest accrued thereon. Any funds held in escrow in an amount of less than U.S.$100,000 may be held in a bank account insured by the Federal Deposit Insurance Corporation ("FDIC"). The parties hereto agree that the Gross Cash Settlement Fund is intended to be a Qualified Settlement Fund within the meaning of Treasury Regulation § 1.468B-1, and that the Escrow Agents, as administrator of the Gross Cash Settlement Fund within the meaning of Treasury Regulation §1.468B-2(k)(3), shall be responsible for filing tax returns and any other tax reporting for or in respect of the Gross Settlement Fund and paying from the Gross Cash Settlement Fund any Taxes owed with respect to the Gross Settlement Fund. The parties hereto agree that the Gross Cash Settlement Fund shall be treated as a Qualified Settlement Fund from the earliest date possible, and agree to any relation-back election required to treat the Gross Cash Settlement Fund as a Qualified Settlement Fund from the earliest date possible. Nortel agrees to provide promptly to the Escrow Agents the statement described in Treasury Regulation § 1.468B-3(e).

(b) All Taxes (as defined herein) shall be paid out of the Gross Cash Settlement Fund, shall be considered to be a cost of administration of the Settlement and shall be timely paid by the Escrow Agents without prior Order of the Courts. The Gross Settlement Fund or the Escrow Agents shall, to the extent required by law, be obligated to withhold from any distributions to Authorized Claimants and other persons entitled thereto pursuant to this Stipulation any funds necessary to pay Taxes including the establishment of adequate reserves for Taxes as well as any amount that may be required

to be withheld under Treasury Reg. 1.468B-2(1)(2) or otherwise under applicable law in respect of such distributions. Further, the Gross Settlement Fund shall indemnify and hold harmless the Nortel I Defendants and their counsel for Taxes (including, without Iimitation, taxes payable by reason of any such indemnification payments).

(c) Furthermore, to the extent (without prejudice or admission of any kind) that the Fonds d' aide aux recours collectifs (Class Action Assistance Fund (the "Fund")) of Quebec is entitled under Quebec law to any portion of the Gross Cash Settlement Fund and/or the Gross Settlement Shares regarding claims by Quebec residents with respect to either of these compensatory items, any relevant payments (whether in cash or shares) will be set aside by the Claims Administrator on behalf of and paid over to the Fund from the amounts otherwise allocable to such Quebec residents, it being agreed and understood that none of the Nortel I Defendants or Released Parties shall bear any responsibility for any such payment of cash or shares.

(d) None of the Nortel I Defendants, the Released Parties or their respective counsel shall have any responsibility for or liability whatsoever with respect to (i) any act, omission or determination of Lead Plaintiff' s Counsel, the Escrow Agents or the Claims Administrator, or any of their respective designees or agents, in connection with the administration of the Settlement or otherwise; (ii) the management, investment or distribution of the Gross Cash Settlement Fund; (iii) the Plan of Allocation; (iv) the determination, administration, calculation or payment of any claims asserted against the Gross Settlement Fund; (v) any losses suffered by, or fluctuations in the value of, the Gross Settlement Fund; or (vi) the payment or withholding of any Taxes, expenses and/or

costs incurred in connection with the taxation of the Gross Settlement Fund or the filing of any returns.

(e) Authorized Claimants shall provide any and all such information that the Claims Administrator may reasonably require and is required by applicable law in respect of Taxes and filings and reportings for and in respect of Taxes, before any distributions are made to Authorized Claimants as contemplated hereby and the Claims Administrator may, without liability to the Authorized Claimants, delay such distributions unless and until such information is provided in the form required by the Claims Administrator.

ADMINISTRATION

6. The Claims Administrator shall administer the Settlement subject to the concurrent jurisdictions of the Courts for all members of the Canadian Classes and for all other Class Members subject solely to the jurisdiction of the Court. To the extent reasonably necessary to effectuate the terms of the Settlement, Nortel shall provide to the Claims Administrator, without charge, all information from Nortel' s transfer records concerning the identity of Class Members and their transactions.

7. (a) The Escrow Agents, acting solely in their capacity as escrow agent, shall be subject to the jurisdiction of the Courts.

(b) The Escrow Agents may pay from the Gross Cash Settlement Fund, without further approval from Nortel, all reasonable costs and expenses associated with identifying and notifying the Class Members and effecting mailing of the Notice and Proof of Claim and publication of the Publication Notice to the Class, and the

administration of the Settlement, including without limitation, the actual costs of printing and mailing the Notice and Proof of Claim, publication of the Publication Notice, reimbursements to nominee owners for forwarding the Notice and Proof of Claim to their beneficial owners, and the administrative expenses incurred and fees charged by the Claims Administrator in connection with providing notice and processing the submitted claims. In the event that the Settlement is terminated, as provided for herein, notice and administration costs paid or accrued in connection with this paragraph shall not be returned to the persons who paid the Cash Settlement Amounts.

(c) The Escrow Agents may rely upon any notice, certificate, instrument, request, paper or other document reasonably believed by them to be genuine and to have been made, sent or signed by an authorized signatory in accordance with this Stipulation, and shall not be liable for (and will be indemnified from the Gross Cash Settlement Fund and held harmless from and against) any and all claims, actions, damages, costs (including reasonable attorneys' fees) and expenses claimed against or incurred by the Escrow Agents for any action taken or omitted by the Escrow Agents, consistent with the terms hereof and the terms of separate escrow agreements between Nortel and the insurers and the Escrow Agents, in connection with the performance by the Escrow Agents of their duties as Escrow Agents pursuant to the provisions of this Stipulation or order of the Courts, except for their gross negligence or willful misconduct. If the Escrow Agents are uncertain as to their duties hereunder, the Escrow Agents may (i) request that Lead Plaintiffs and Canadian Representative Plaintiffs (and, prior to the Effective Date, Nortel) sign a document which states the action or non-action to be taken by the Escrow Agents or (ii) commence an Interpleader action in a federal court in the

Southern District of New York and be reimbursed out of the monies held in the Gross Cash Settlement Fund for their costs and expenses (including reasonable attorneys' fees). In the event the Settlement is terminated, as provided for herein, indemnified amounts and expenses incurred by the Escrow Agents in connection with this paragraph shall not be returned to the persons who paid the Settlement Amounts.

ATTORNEYS' FEES AND EXPENSES

8. Lead Plaintiff's Counsel will apply to the United States District Court for the Southern District of New York for an award of attorneys' fees and reimbursement of expenses payable from both the Gross Cash Settlement Fund and Gross Settlement Shares. Canadian Class Counsel will apply to their corresponding Canadian Courts for an award of their counsel fees and reimbursement of expenses to be paid from the Gross Cash Settlement Fund and Gross Settlement Shares. All Plaintiffs' Counsel shall further provide to their respective Courts, as part of the motion for approval of the Settlement, all necessary information required by their respective courts concerning the total award of attorneys' fees and reimbursement of expenses to be payable from the Gross Cash Settlement Fund and Gross Settlement Shares. The total amount of shares awarded as attorneys' fees and reimbursement of expenses may amount to no more than one-third of the Gross Settlement Shares, and in fact shall be substantially less. Such amounts as are awarded by the United States District Court for the Southern District of New York to Lead Plaintiff's Counsel or from the Canadian Courts to Canadian Class Counsel from the Gross Cash Settlement Fund shall be payable by the Escrow Agents immediately upon award, notwithstanding the existence of any timely filed objections thereto, or potential for appeal therefrom, or collateral attack on the Settlement or any part thereof, subject to

Plaintiff' s Counsel' s obligations to make appropriate refunds or repayments to the Gross Cash Settlement Fund plus accrued interest at the same rate as is earned by the Gross Cash Settlement Fund, if and when, as a result of any appeal and/or further proceedings on remand, or successful collateral attack, the fee or cost award is reduced or reversed. Such amounts as are awarded to Plaintiffs' Counsel by the Courts from the Gross Settlement Shares shall be payable to Plaintiffs' Counsel at the first date on which the Effective Date has occurred and the award of attorneys' fees is Final. If the fee award is paid prior to the Effective Date, then any counsel receiving such fees shall provide undertakings satisfactory to Nortel and the respective court to repay such fees if the Settlement is not finally approved on appeal or the fee award is later modified or reversed for any reason.

CLASS DISTRIBUTION ORDER/ADMINISTRATION EXPENSES

9. Lead Plaintiffs Counsel and Canadian Class Counsel will apply respectively to the United States District Court for the Southern District of New York, and with respect to the claims of Canadian Class Members to the Canadian Courts, on notice to Nortel' s Counsel, for an order (the "Class Distribution Order") approving the Claims Administrator' s administrative determinations concerning the acceptance and rejection of the claims submitted herein, and approving any fees and expenses not previously applied for relating to the administration of the Settlement, including the fees and expenses of the Claims Administrator, the reasonable costs and expenses of the physical delivery of the Gross Settlement Shares and any extraordinary or expedited services of the transfer agent with respect to such physical delivery, and, only if the

Effective Date has occurred, directing payment of the Net Settlement Fund to Authorized Claimants.

DISTRIBUTION TO AUTHORIZED CLAIMANTS

10. The Claims Administrator shall determine each Authorized Claimant' s Rro rata share of the Net Settlement Fund based upon each Authorized Claimant' s Recognized Claim (as defined in the Plan of Allocation described in the Notice annexed hereto as Tab 1 to Exhibit A).

11. It is understood and agreed by the parties that the proposed Plan of Allocation, including, but not limited to, any adjustments to any Authorized Claimant' s claim set forth herein, is not part of the Stipulation and is to be considered by the Courts separately from the Courts' consideration of fairness, reasonableness and adequacy of the Settlement, and any order or proceeding relating to the Plan of Allocation shall not operate to terminate or cancel the Stipulation or affect the Finality of the Courts' Judgments approving the Stipulation and the Settlement set forth herein, or any other orders entered pursuant to the Stipulation.

12. Each Authorized Claimant shall be allocated a Ero rata share of the Net Settlement Fund based on his, her or its recognized claim compared to the total recognized claims of all Authorized Claimants. This is not a claims-made settlement. Neither Nortel nor its insurers shall be entitled to receive any of the Gross Settlement Fund following the Effective Date. The Nortel 1 Defendants shall have no involvement in reviewing or challenging claims.

ADMINISTRATION OF THE SETTLEMENT

13. Any Class Member who does not submit a valid Proof of Claim will not be entitled to receive any of the proceeds from the Net Settlement Fund but will otherwise be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgments to be entered in the Actions and the releases provided for herein, and will be barred from bringing any action against the Released Parties concerning the Settled Claims.

14. The Claims Administrator shall process the Proofs of Claim and, after the Effective Date and entry of the Class Distribution Order, Lead Plaintff' s Counsel in conjunction with Canadian Class Counsel shall give to Nortel the written instructions to issue and deliver the Gross Settlement Shares in accordance with ¶ 4(d) hereof and the Claims Administrator shall distribute the Net Cash Settlement Fund to Authorized Claimants, and Nortel shall cause the transfer agent to distribute the Net Settlement Shares to Authorized Claimants. Except for Nortel' s obligation to pay or cause to be paid the Cash Settlement Amounts to the Escrow Agents in accordance with ¶ 4(a), (b) and (e) hereof, and to cooperate in the production of information with respect to the identification of Class Members from Nortel' s shareholder transfer records, as provided herein, and to issue and deliver the Gross Settlement Shares in accordance with ¶ 4(d) hereof, Nortel I Defendants shall have no liability, obligation or responsibility for the administration of the Settlement or disbursement of the Net Settlement Fund. Lead Plaintiffs Counsel or Canadian Class Counsel, as the case may be, shall have the right, but not the obligation, to advise the Claims Administrator to waive what Lead Plaintiff' s Counsel, or, with respect to claims of the Canadian Class Members, Canadian Class Counsel, deem to be

formal or technical defects in any Proofs of Claim submitted in the interests of achieving substantial justice.

15. For purposes of determining the extent, if any, to which a Class Member shall be entitled to be treated as an Authorized Claimant, the following conditions shall apply:

(a) Each Class Member shall be required to submit a Proof of Claim (see attached Tab 2 to Exhibit A), supported by such documents as are designated therein, including proof of the transactions claimed and the losses incurred thereon or such other documents or proof as the Claims Administrator, in its discretion, may deem acceptable;

(b) All Proofs of Claim must be submitted by the date specified in the Notice unless such period is extended by Order of the United States District Court for the Southern District of New York or, in the case of a member of Canadian Class, the applicable Canadian Court that certified the Canadian Class. Any Class Member who fails to submit a Proof of Claim by such date shall be forever barred from receiving any payment pursuant to the Settlement (unless, by court Order, a later submitted Proof of Claim by such Class Member is approved), but shall in all other respects be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgments to be entered in the Nortel I Actions, and the releases provided for herein, and will be barred from bringing any action against the Released Parties concerning the Settled Claims. Provided that it is received before the first motion for the Class Distribution Order is filed, a Proof of Claim shall be deemed to have been submitted when posted, if received with a postmark indicated on the envelope and if mailed by first-class mail and

addressed in accordance with the instructions thereon. In all other cases, the Proof of Claim shall be deemed to have been submitted when actually received by the Claims Administrator;

(c) Each Proof of Claim shall be submitted to and reviewed by the Claims Administrator, which shall determine in accordance with this Stipulation and the approved Plan of Allocation the extent, if any, to which each claim shall be allowed, subject to review by the Courts pursuant to subparagraph (e) below;

(d) Proofs of Claim that do not meet the submission requirements may be rejected. Prior to rejection of a Proof of Claim, the Claims Administrator shall communicate with the claimant in order to attempt to remedy the curable deficiencies in the Proof of Claim submitted. The Claims Administrator shall notify, in a timely fashion and in writing, each claimant whose Proof of Claim they propose to reject in whole or in part, setting forth the reasons therefor, and shall indicate in such notice that the claimant whose claim is to be rejected has the right to a review by the United States District Court for the Southern District of New York or, in the case of a member of a Canadian Class the applicable Canadian Court that certified the Canadian Class if the claimant so desires and complies with the requirements of subparagraph (e) below; and

(e) If any claimant whose claim has been rejected in whole or in part desires to contest such rejection, the claimant must, within twenty (20) days after the date of mailing of the notice required in subparagraph (d) above, serve upon the Claims Administrator a notice and statement of reasons indicating the claimant' s grounds for contesting the rejection along with any supporting documentation, and requesting a final

review thereof by the United States District Court for the Southern District of New York or, in the case of a member of a Canadian Class the applicable Canadian Court that certified the Canadian Class. If a dispute concerning a claim cannot be otherwise resolved, Lead Plaintiffs Counsel or Canadian Class Counsel shall thereafter present the request for review to the respective court or to such court' s designee.

16. The administrative determinations of the Claims Administrator accepting and rejecting claims shall be presented to the United States District Court for the Southern District of New York, and with respect to the claims of Canadian Class Members to the Canadian Courts, on notice to Nortel' s Counsel, for approval in the Class Distribution Order.

17. Each claimant shall be deemed to have submitted to the jurisdiction of the United States District Court for the Southern District of New York and, in the case of members of the Canadian Classes with respect to such claimant' s claim the Canadian Court that certified the applicable Canadian Class, and the claim will be subject to investigation and discovery under the (United States) Federal Rules of Civil Procedure, or under applicable Canadian rules with respect to members of the Canadian Classes, provided that such investigation and discovery shall be limited to that claimant' s status as a Class Member and the validity and amount of such claimant' s claim. No discovery shall be allowed on the merits of the Nortel I Actions or the Settlement in connection with processing of the Proofs of Claim.

18. Payment pursuant to the Settlement shall be deemed final and conclusive against all Class Members. All Class Members whose claims are not approved pursuant

to the Class Distribution Order shall be barred from participating in distributions from the Net Settlement Fund, but otherwise shall be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgments to be entered in the Nortel I Actions, and the releases provided for herein, and will be barred from bringing any action against the Released Parties concerning the Settled Claims.

19. All proceedings with respect to the administration, processing and determination of claims described by ¶ 15 hereof, and the determination of all controversies relating thereto, including disputed questions of law and fact with respect to the validity of claims, shall be subject to the jurisdiction of the United States District Court for the Southern District of New York or, in the case of a Canadian Class Member, the jurisdiction of the applicable Canadian Court that certified the Canadian Class.

20. The Net Cash Settlement Fund shall be distributed to Authorized Claimants by the Claims Administrator, and the Net Settlement Shares shall be issued and distributed to Authorized Claimants in accordance with ¶ 4(d) hereof, only after the Effective Date and after all Claims have been processed, and all claimants whose Claims have been rejected or disallowed, in whole or in part, have been notified and provided the opportunity to contest with the Claims Administrator such rejection or disallowance.

TERMS OF ORDER FOR NOTICE AND HEARING

21. (a) Promptly after this Stipulation has been fully executed, Lead Plaintiff' s Counsel and Nortel' s Counsel jointly shall apply to the United States District Court for the Southern District of New York for entry of an Order for Notice and Hearing, substantially in the form annexed hereto as Exhibit A.

(b) Promptly after this Stipulation has been fully executed, the Canadian Representative Plaintiffs shall apply to the respective Canadian Courts for, and Nortel shall consent to, orders for certification of the Nortel I Canadian Actions (for settlement purposes only and on terms acceptable to Nortel) substantially in the form annexed hereto as Exhibits D − F and for directions approving the Notice.

(c) The mailing or publication of the Notice and Publication Notice shall not occur until all such orders of the Courts have been obtained, and in the event that any of the Courts require changes in the Notice or the Publication Notice, after such changes are also approved by the other Courts.

TERMS OF ORDER AND FINAL JUDGMENT

22. (a) If the Settlement contemplated by this Stipulation is approved by the United States District Court for the Southern District of New York, Plaintiffs Lead Counsel and Nortel' s Counsel shall request that a Judgment be entered substantially in the form annexed hereto as Exhibit B.

(b) If the Settlement contemplated by this Stipulation is approved by the Canadian Courts, Nortel' s counsel and Canadian Class Counsel jointly shall apply to the respective Canadian Courts for entry of Judgments substantially in the forms annexed hereto as Exhibits G − I.

SUPPLEMENTAL AGREEMENT

23. Simultaneously herewith, Lead Plaintiffs Counsel, Canadian Class Counsel and Nortel' s Counsel are executing a "Supplemental Agreement" setting forth certain conditions under which this Settlement may be terminated by Nortel if potential

Class Members who purchased in excess of a certain number of shares of Nortel Securities traded during the Class Period exclude themselves from the Class (the "Opt-out Threshold"). Unless otherwise directed by the Courts, the Supplemental Agreement may be filed with the Opt-out Threshold redacted. Notwithstanding the foregoing, the Opt-out Threshold may be disclosed to the Courts for purposes of the approval of the Settlement, as may be required by the Courts, but such disclosure shall be carried out to the fullest extent possible in accordance with the practices of the respective Courts so as to maintain the Opt-out Threshold as confidential. In the event of a termination of this Settlement pursuant to the Supplemental Agreement, this Stipulation shall become null and void and of no further force and effect, with the exception of the provisions of ¶ 28 which shall continue to apply. Notwithstanding the foregoing, the Stipulation shall not become null and void as a result of the election by Nortel to exercise its option to withdraw from the Stipulation pursuant to the Supplemental Agreement until the conditions set forth in the Supplemental Agreement have been satisfied. The Supplemental Agreement is attached hereto as Exhibit C, with the Opt-out Threshold redacted.

EFFECTIVE DATE OF SETTLEMENT, WAIVER OR TERMINATION

24. The "Effective Date" of Settlement shall be the date when all the following conditions of settlement shall have occurred:

(a) approval by the United States District Court for the Southern District of New York of the Settlement, following notice to the Class and a hearing, as prescribed by Rule 23 of the (United States) Federal Rules of Civil Procedure;

(b) entry by the United States District Court for the Southern District of New York of a Judgment, substantially in the form set forth in Exhibit B annexed hereto, and the expiration of any time for appeal or review of such Judgment, or, if any appeal is filed, after such Judgment is upheld on appeal in all material respects and is no longer subject to review upon appeal or review by writ of certiorari, or, in the event that the United States District Court for the Southern District of New York enters an order and final Judgment in a form other than that provided above ("Alternative U.S. Judgment") and none of the parties hereto elect to terminate this Settlement, the date that such Alternative U.S. Judgment becomes Final;

(c) approval of the Settlement by the Ontario Superior Court of Justice in the Ontario Frohlinger Action, following notice to the Ontario National Class and a hearing pursuant to the Ontario *Class Proceedings Act*, 1992;

(d) entry by the Ontario Superior Court of Justice in the Ontario Frohlinger Action of a Judgment, substantially in the form set forth in Exhibit G annexed hereto, and the expiration of any time for appeal or review of any and all of such Judgment, or, if any appeal is filed, after any such judgment is upheld on appeal in all material respects and is no longer subject to review upon appeal or otherwise, or, in the event that the Ontario Superior Court of Justice enters an order and final judgment in a form other than that provided above ("Alternative Ontario Judgment") and none of the parties hereto elect to terminate this Settlement pursuant to ¶ 25(d) hereof, within 30 days of the Ontario Superior Court of Justice entering the Alternative Ontario Judgment, the date that such Alternative Ontario Judgment becomes Final;

(e) approval of the Settlement by the Superior Court of Quebec in the Quebec A.P.E.I.Q. Action, following notice to the Quebec Class and a hearing pursuant to the Quebec Code of Civil Procedure;

(f) entry by the Superior Court of Quebec in the A.P.E.I.Q. Action of a Judgment, substantially in the form set forth in Exhibit H annexed hereto, and the expiration of any time for appeal or review of any and all of such Judgments, or, if any appeal is filed, after any such Judgment is upheld on appeal in all material respects and is no longer subject to review upon appeal or otherwise, or, in the event that the Superior Court of Quebec enters an order and final judgment in a form other than that provided above ("Alternative Quebec Judgment") and none of the parties hereto elect to terminate this Settlement pursuant to ¶ 25(d) hereof within 30 days of the Superior Court of Quebec entering an Alternative Quebec Judgment, the date that such Alternative Quebec Judgment becomes Final;

(g) approval of the Settlement by the Supreme Court of British Columbia in the B.C. Jeffery Action, following notice to the British Columbia Class and a hearing pursuant to the British Columbia Class Proceedings Act;

(h) entry by the of Supreme Court of British Columbia in the B.C. Jeffery Action of a Judgment, substantially in the form set forth in Exhibit I annexed hereto, and the expiration of any time for appeal or review of any and all of such Judgments, or, if any appeal is filed, after any such Judgment is upheld on appeal in all material respects and is no longer subject to review upon appeal or otherwise, or, in the event that the Supreme Court of British Columbia enters an order and final judgment in a

form other than that provided above ("Alternative B.C. Judgment") and none of the parties hereto elect to terminate this Settlement pursuant to ¶ 25(d) hereof within 30 days of the Supreme Court of British Columbia entering the Alternative B.C. Judgment, the date that such Alternative B.C. Judgment becomes Final;

(i) Nortel shall have used every commercially reasonable effort to cause (1), (2), (3) and (4) below to have been obtained and Nortel shall have received, in form and substance satisfactory to it:

(1) either (A) an MRRS decision document issued pursuant to National Policy 12-201 − Mutual Reliance Review System for Exemptive Relief Applications, or any successor, replacement or amending regulatory instrument ("NI 12-201") exempting the issuance, delivery and distribution of the Gross Settlement Shares in accordance with the terms of the Settlement from the dealer registration and prospectus requirements of all applicable Canadian provincial and territorial securities legislation, and imposing only those limitations on resale of Gross Settlement Shares in any Canadian province or territory that are substantially equivalent to those set forth in subsection (3) of section 2.6 of National Instrument 45-102 − Resale of Securities, together with all necessary comparable exemptive relief issued by each of the non-principal regulators (as such term is defined for the purposes of NI 12-201) that have opted out of the system for the application for the aforementioned MRRS decision document (the "Exemptive

Relief"), which Exemptive Relief shall be in form and substance satisfactory to Lead Plaintiff's Counsel acting reasonably; or (B) a final MRRS decision document issued pursuant to National Policy 43-201 – Mutual Reliance Review System for Prospectuses and Annual Information Forms, or any successor, replacement or amending regulatory instrument, ("NI 43-201") evidencing that a receipt has been obtained for a final prospectus of Nortel relating to the Gross Settlement Shares in each Canadian province and territory where any Settlement Shares may be distributed, together with all necessary receipts for such final prospectus issued by each of the non-principal regulators (as such term is defined for purposes of NI 43-201) that have opted out of the Mutual Reliance Review System for such prospectus;

(2) (A) should it be necessary, a "no action" letter from the United States Securities and Exchange Commission with respect to the issuance, delivery and distribution of the Gross Settlement Shares in accordance with the terms of the Settlement pursuant to the exemption from registration set forth in Section 3(a)(10) under the (United States) Securities Act of 1933, 15 U.S.C. § 77c(a)(I), as amended (the "Securities Act") (if necessary, the "No Action Letter"); or (B) if a No Action Letter should be necessary and not be obtained, Nortel shall register the Gross Settlement Shares and notice of effectiveness shall have been received confirming that the

registration statement registering the Gross Settlement Shares under the Securities Act and filed with the United States Securities and Exchange Commission had been declared effective by such Commission;

(3) all required approvals from the New York Stock Exchange and the Toronto Stock Exchange with respect to the issuance, delivery and distribution of the Gross Settlement Shares in accordance with the terms of the Settlement (the "Stock Exchange Approvals"); and

(4) all required approvals under U.S. state securities or "blue sky" laws with respect to the issuance, delivery and distribution of the Gross Settlement Shares in accordance with the terms of the Settlement, including those with respect to the states of Arizona and New York ("Blue Sky Approvals");

(j) all conditions, if any, of the Exemptive Relief, the No Action Letter, the Stock Exchange Approvals and the Blue Sky Approvals, to the issuance and distribution of the Gross Settlement Shares, have been satisfied; and

(k) expiration of the time to exercise the termination rights provided in ¶ 25 hereof.

25. Lead Plaintiff, the Canadian Representative Plaintiffs and Nortel shall each have the right to terminate the Settlement and thereby this Stipulation by providing written notice of their or its election to do so ("Termination Notice") to one another

hereto within thirty (30) days of any of the following: (a) the United States District Court for the Southern District of New York declining to enter the Order for Notice and Hearing in any material respect; (b) any one of the Canadian Courts declining to enter orders, in any material respect, in the form of the notice set forth in Exhibits D − F; (c) any one of the Courts refusing to approve this Settlement as set forth in this Stipulation for one or more of the Nortel I Actions; (d) any one of the Courts declining to enter the corresponding Judgment for that court in any material respect; (e) the date upon which a Judgment is modified or reversed in any material respect by any level of appellate court; (f) the date upon which an Alternative Judgment is modified or reversed in any material respect by any level of appellate court; and (g) the date upon which the settlement in the Nortel II Actions is terminated; or (h) the conditions set forth in ¶ 24 (i) and 24(j) hereof not having been satisfied prior to forty-five (45) calendar days after the latter of (i) entry of the last Final Judgment contemplated in ¶ 24 hereof or (ii) entry of the last final judgment in the Nortel II Actions.

26. Notwithstanding anything else in this Stipulation, Nortel may, in accordance with the terms set for in the Supplemental Agreement, and in its sole and unfettered discretion, elect in writing to terminate the Settlement and this Stipulation if the Opt-out Threshold is exceeded or as otherwise provided in the Supplemental Agreement.

27. In the event that there is non-delivery by Nortel of any of the Net Settlement Shares required to be delivered hereunder in accordance with ¶ 4(d) hereof, then Lead Plaintiff and the Canadian Representative Plaintiffs shall consult with one another and, in the event of consensus, may apply jointly to the Courts for orders at their

option either terminating this Settlement as it applies to the Class, directing specific performance of Nortel' s obligation to issue and/or deliver such shares, or obtain such other available relief. In the event of non-consensus between Lead Plaintiff and the Canadian Representative Plaintiffs, each shall apply forthwith to their respective courts, on notice to one another, for an order either terminating this Settlement as it applies to their class, directing specific performance of Nortel' s obligation to issue and/or deliver such shares, or obtain such other available relief. It is agreed that in the event that an Order is obtained on such an application from one court terminating the Settlement for one class, the Settlement shall be terminated for the balance of the Class and orders to that effect shall be sought on consent from the remaining Courts.

28. Except as otherwise provided herein, in the event the Settlement is terminated, the parties to this Stipulation shall be deemed to have reverted to their respective status in the Nortel 1 Actions immediately prior to the execution of this Stipulation and, except as otherwise expressly provided, the parties shall proceed in all respects as if this Stipulation and any related orders had not been entered. Furthermore, an amount equal to the Cash Settlement Amounts previously paid by Nortel and/or Nortel' s Insurers, as the case may be, shall be paid to Norte/ and/or Nortel' s Insurers as the case may be, less the amount transferred to the Nortel II escrow agent, together with any interest or other income earned thereon or in respect thereof, less any Taxes paid or due with respect to such income, less any amounts required to be paid to the Escrow Agents pursuant to the relevant escrow agreement, and less any reasonable costs of administration and notice actually incurred and paid or payable from the Cash Settlement Amount (as described in 1 7 hereof), less any applicable withholding taxes.

NO ADMISSION OF WRONGDOING

29. This Stipulation, whether or not consummated, and any proceedings taken pursuant to it:

(a) shall not be offered or received against any of the Nortel I Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of those defendants with respect to the truth of any fact alleged by any of the plaintiffs or the validity of any claim that has been or could have been asserted in the Nortel I Actions or in any litigation, or the deficiency of any defense that has been or could have been asserted in the Nortel I Actions or in any litigation, or of any liability, negligence, fault, or wrongdoing of the Nortel I Defendants;

(b) shall not be offered or received against the Nortel I Defendants as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any of the Nortel I Defendants;

(c) shall not be offered or received against the Nortel I Defendants as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against any of the Nortel I Defendants, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of this Stipulation; provided, however, that if this Stipulation is approved by the Courts, Nortel I Defendants may refer to it to effectuate the liability protection granted them hereunder;

(d) shall not be construed against any of the Nortel I Defendants as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial;

(e) shall not be construed as or received in evidence as an admission, concession or presumption against Lead Plaintiff, Canadian Representative Plaintiffs or any of the Class Members that any of their claims are without merit, or that any defenses asserted by the Nortel I Defendants have any merit, or that damages recoverable under the Nortel I Actions would not have exceeded the Gross Settlement Fund; and

(f) shall not be construed as or received in evidence as an act of attornment to the jurisdiction of any court by Lead Plaintiffs or Canadian Representative Plaintiffs by reason of their participation or the participation of their respective counsel in proceedings taken pursuant to the Stipulation to approve the Settlement.

MISCELLANEOUS PROVISIONS

30. All of the exhibits attached hereto are hereby incorporated by reference as though fully set forth herein.

31. Nortel warrants as to itself that, as to the payments made by or on its behalf, at the time of such payment that it made or caused to be made pursuant to 14 hereof, it was not insolvent, nor did nor will the payment required to be made by or on behalf of it, render it insolvent, within the meaning of and/or for the purposes of the (United States) Bankruptcy Code, including §§ 101 and 547 thereof. This warranty is made by Nortel and not by Nortel' s Counsel.

32. If a case is commenced in respect of any portion of the Settlement Amount (or any insurer contributing funds to the Insurers' Nortel I Cash Settlement Amount on behalf of any Nortel I Defendant) under Title 1 1 of the United States Code (Bankruptcy), or a trustee, receiver or conservator is appointed under any similar law, and in the event of the entry of a final order of a court of competent jurisdiction determining the transfer of money to the Gross Cash Settlement Fund or issuance of any Gross Settlement Shares or any portion thereof by or on behalf of such defendant to be a preference, voidable transfer, fraudulent transfer or similar transaction and any portion thereof is required to be returned, and such amount is not promptly deposited to the Gross Cash Settlement Fund or such shares are not issued by others, then, at the election of Lead Plaintiffs in respect of the Nortel I U.S. Action, and with respect to the Nortel I Canadian Actions at the election of Canadian Representative Plaintiffs, the parties shall jointly apply to the respective courts, as the case may be, to vacate and set aside the releases given and Judgments entered in favor of the Nortel I Defendants pursuant to this Stipulation, and which releases shall be null and void, and the parties shall be restored to their respective positions in the Nortel I Actions as of the date a day prior to the date of this Stipulation and any cash amounts in the Gross Cash Settlement Fund and any Gross Settlement Shares previously issued by Nortel shall be returned as provided in ¶ 28 hereof.

33. The parties to this Stipulation intend the Settlement to be a final and complete resolution of all disputes asserted or which could be asserted by the Class Members against the Released Parties with respect to the Settled Claims. Accordingly, Lead Plaintiff, Canadian Representative Plaintiffs and Nortel agree not to assert in any forum that the Nortel I Actions were brought by the plaintiffs or defended by defendants

in those actions in bad faith or without a reasonable basis. The parties hereto shall assert no claims of any violation of Rule 11 of the Federal Rules of Civil Procedure relating to the prosecution, defense, or settlement of the Nortel I Actions. The parties agree that the amount paid and the other terms of the Settlement were negotiated at arm' s length in good faith by the parties, and reflect a settlement that was reached voluntarily after consultation with experienced legal counsel.

34. This Stipulation may not be modified or amended, nor may any of its provisions be waived, except by a writing signed by all parties hereto or their successors-in-interest.

35. The headings herein are used for the purpose of convenience only and are not meant to have legal effect.

36. The administration and consummation of the Settlement as embodied in this Stipulation shall be under the authority of the United States District Court for the Southern District of New York and that Court shall retain jurisdiction for the purpose of entering orders providing for awards of attorneys' fees and expenses to Lead Plaintiff' s Counsel and enforcing the terms of this Stipulation. Notwithstanding the foregoing, the Canadian Courts shall retain concurrent jurisdiction with respect to the administration, consummation and enforcement of the Settlement as embodied in this Stipulation and with respect to members of the corresponding Canadian Classes and shall retain jurisdiction for the purposes of entering orders providing for counsel fees and expenses to Canadian Class Counsel.

37. The waiver by one party of any breach of this Stipulation by any other party shall not be deemed a waiver of any other prior or subsequent breach of this Stipulation.

38. This Stipulation and its exhibits, the Supplemental Agreement, the various escrow agreements governing the cash contributions by Nortel and its insurers toward the Settlement, and the contemporaneous agreements with respect to Canadian Representative Plaintiffs confirming the application of this Stipulation to the Nortel I Canadian Actions constitute the entire agreement concerning the Settlement of the Nortel I Actions, and no representations, warranties, or inducements have been made by any party hereto concerning this Stipulation, its exhibits and the Supplemental Agreement other than those contained and memorialized in such documents.

39. This Stipulation may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument.

40. This Stipulation shall be binding upon, and inure to the benefit of, the successors and assigns of the parties hereto.

41. The construction and interpretation of this Stipulation and the Supplemental Agreement shall be governed by the internal laws of the State of New York without regard to conflicts of laws, except to the extent that federal law of the United States requires that federal law governs.

42. This Stipulation shall not be construed more strictly against one party than another merely by virtue of the fact that it, or any part of it, may have been prepared by counsel for one of the parties, it being recognized that it is the result of arm' s-length negotiations between the parties and all parties have contributed substantially and materially to the preparation of this Stipulation.

43. All counsel and any other person executing this Stipulation, the Supplemental Agreement and any of the exhibits hereto, or any related settlement documents, warrant and represent that they have the full authority to do so and that they have the authority to take appropriate action required or permitted to be taken pursuant to the Stipulation to effectuate its terms.

44. Lead Plaintiff, Canadian Representative Plaintiffs and Nortel agree to cooperate fully with one another in seeking Court approval of the Order for Notice and Hearing, the Stipulation and the Settlement, and to promptly agree upon and execute all such other documentation as may be reasonably required to obtain fmal approval by the Courts of the Settlement.

DATED: June 20, 2006

MILBERG WEISS BERSUAD & SCHULMAN LLP

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Lead Plaintiff' s Counsel

SHEARMAN & STERLING LLP

By: /s/ Stuart J. Baskin
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Nortel' s Counsel

EXHIBIT A

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re NORTEL NETWORKS CORP. SECURITIES LITIGATION	:	Civil Action No. 01-CV-1855 (RMB)
This Document Relates To:	:	CLASS ACTION
ALL ACTIONS.	:	

PRELIMINARY ORDER FOR NOTICE AND HEARING IN CONNECTION WITH SETTLEMENT PROCEEDINGS

WHEREAS, on June 20, 2006, the parties to the above-entitled action (the "Action") entered into a Stipulation and Agreement of Settlement (the "Stipulation") which is subject to review under Rule 23 of the (United States) Federal Rules of Civil Procedure and which, together with the exhibits thereto, sets forth the terms and conditions for the proposed settlement of the claims alleged in the Complaint on the merits and with prejudice; and the Court having read and considered the Stipulation and the accompanying documents; and the parties to the Stipulation having consented to the entry of this Order; and all capitalized terms used herein having the meanings defined in the Stipulation; and

WHEREAS, pursuant to Rules 23(a) and 23(b)(3) of the (United States) Federal Rules of Civil Procedure and by Order dated September 5, 2003, this Action was certified as a class action on behalf of all persons and entities who, during the period October 24, 2000 and continuing through and including February 15, 2001, purchased Nortel Networks Corporation ("Nortel") common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively "Nortel Securities"), and who suffered damages thereby, including,

but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from the U.S. Global Class are the defendants, members of any of the individual defendants' immediate families, any entity in which any of the defendants has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, 'legal representatives, heirs, predecessors, successors or assigns of any of the defendants. Pursuant to the Notice of Pendency of Class Action (the "Notice of Pendency") previously given to the members of the U.S. Global Class, U.S. Global Class Members were given the opportunity to exclude themselves from the U.S. Global Class. 1,638 persons and entities elected to exclude themselves from the Class. Those persons and entities were listed in the Affidavit of Jack B. DiGiovanni filed July 6, 2004.

WHEREAS, the Stipulation provides for the settlement and dismissal of the Canadian class proceedings identified in the Stipulation (the "Canadian Class Actions") and approval of the Settlement in the courts before which the Canadian Class Actions are pending (the "Canadian Courts") is also being sought; and

WHEREAS, it is a condition to the effectiveness of the proposed Settlement herein that additional putative class actions identified in the Stipulation brought against Nortel and certain of the defendants herein in this District and in Canadian Courts (the "Nortel I/11 Actions") also be settled and dismissed.

NOW, THEREFORE, IT IS HEREBY ORDERED, this _____ day of _____ 2006 that:

1. A hearing (the "Settlement Fairness Hearing") pursuant to Rule 23(e) of the (United States) Federal Rules of Civil Procedure is hereby scheduled to be held before the Court on _____, 2006, at ___:_____ ___.m. for the following purposes:

(a) to determine whether the proposed Settlement is fair, reasonable, and adequate, and should be approved by the Court;

(b) to determine whether the Judgment as provided under the Stipulation should be entered, dismissing the Complaint filed herein, on the merits and with prejudice, and to determine whether the release by the U.S. Global Class of the Settled Claims, as set forth in the Stipulation, should be provided to the Released Parties (as those terms are defined in the Stipulation);

(c) to determine whether the proposed Plan of Allocation for the proceeds of the Settlement is fair and reasonable, and should be approved by the Court;

(d) to consider Lead Plaintiff' s Counsel' s application for an award of attorneys' fees and for reimbursement of expenses to Plaintiffs' Counsel; and

(e) to rule upon such other matters as the Court may deem appropriate.

2. The Court recognizes and acknowledges that one consequence of the approval of the Settlement at the Settlement Fairness Hearing, which shall be open to everyone to whom any Gross Settlement Shares would be issued in the proposed Settlement, with adequate notice to be given to all those persons, is that, pursuant to Section 3(a)(l0) of the (United States) Securities Act of 1933, as amended, 15 U.S.C. § 77c(a)(1), the Gross Settlement Shares may be distributed to Class Members (and to Plaintiffs' Counsel as may be awarded by the respective Courts) without registration and compliance with the prospectus delivery requirements of the U.S. securities laws as the Gross Settlement Shares will be exempt from registration under the (United States) Securities Act of 1933, 15 U.S.C. § 77c(a)(1), as amended, pursuant to Section 3(a)(10) thereunder. The Court further acknowledges that Nortel will rely on such 3(a)(10) exemption

(and Nortel will not register the Gross Settlement Shares under the (United States) Securities Act of 1933) based on the Court' s approval of the fairness of the Settlement.

3. The Court reserves the right to approve the Settlement with or without modification and with or without further notice of any kind. The Court further reserves the right to enter its Judgment approving the Stipulation and dismissing the Complaint on the merits and with prejudice regardless of whether it has approved the Plan of Allocation or awarded attorneys' fees and expenses.

4. The Court approves the form, substance and requirements of the Notice of Certifications in Canada and Proposed Settlements of Class Actions, Motions for Attorneys' Fees and Settlement Fairness Hearings (the "Notice") and the Proof of Claim form, annexed hereto as Tabs I and 2, respectively.

5. The Court approves the appointment of The Garden City Group Inc. ("GCG") as the Claims Administrator. Upon approval of the Notice and the Proof of Claim and the appointment of GCG as the Claims Administrator by each of the Canadian Courts ("Canadian Courts' Approval"), the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms annexed hereto as Tabs 1 and 2, to be mailed, by first class mail, postage prepaid, on or before _____ days after entry of the last order, whether by this Court, the Court in the Nortel II U.S. Action, or any of the Canadian Courts, approving the issuance of the Notice, to all U.S. Global Class Members who can be identified with reasonable effort. Notices that are addressed to persons or entities in Quebec shall be accompanied by a French language version of the Notice and Proof of Claim forms. Nortel shall cooperate in making Nortel' s transfer records and shareholder information available to the Claims Administrator no later than _____ days following entry of this Order for the purpose

of identifying and giving notice to the U.S. Global Class. The Claims Administrator shall use reasonable efforts to give notice to nominee purchasers such as brokerage firms and other persons or entities who purchased Nortel common stock during the Class Period as record owners but not as beneficial owners. Such nominee purchasers are directed, within seven (7) days of their receipt of the Notice, to either forward copies of the Notice and Proof of Claim to their beneficial owners or to provide the Claims Administrator with lists of the names and addresses of the beneficial owners, and the Claims Administrator is ordered to send the Notice and Proof of Claim promptly to such identified beneficial owners. Nominee purchasers who elect to send the Notice and Proof of Claim to their beneficial owners shall send a statement to the Claims Administrator confirming that the mailing was made as directed. Additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund, upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proofs of Claim to beneficial owners. Lead Plaintiff' s Counsel shall, at or before the Settlement Fairness Hearing, file with the Court proof of mailing of the Notice and Proof of Claim.

6. The Claims Administrator or the 'Escrow Agent or their agents are authorized and directed to prepare any tax returns required to be filed on behalf of or in respect of the Gross Settlement Fund and to cause any Taxes due and owing to be paid from the Gross Settlement Fund, and to otherwise perform all obligations with respect to Taxes and any reporting or filings in respect thereof as contemplated by the Stipulation, without further order of the Court.

7. Lead Plaintiffs Counsel shall submit their papers in support of final approval of the Settlement and application for attorneys' fees and reimbursement of expenses by no later than forty-five (45) calendar days after the date set for mailing of the Notice.

8. The Court approves the form of Publication Notice of the Pendency of this class action and the proposed settlement in substantially the form and content annexed hereto as Tab 3 and directs that Lead Plaintiffs Counsel shall cause the Publication Notice to be published in Canada in accordance with the Notice Plan attached hereto as Tab 4, and the Publication Notice shall also be published in the U.S. on two different dates in the national editions of *The Wall Street Journal*, *USA Today*, and *The New York Times*, once in Investor' s Business Daily, and once over the PR Newswire, which publications shall begin within seven (7) calendar days of the mailing of the Notice and in accordance with the Notice Plan. Lead Plaintiffs Counsel shall, at or before the Settlement Fairness Hearing, file with the Court proof of the publication of the Publication Notice.

9. The form and content of the Notice, and the method set forth herein of notifying the Class of the Settlement and its terms and conditions, meet the requirements of Rule 23 of the (United States) Federal Rules of Civil Procedure, Section 21 D(a)(7) of the (United States) Securities Exchange Act of 1934, as amended, 15 U.S.C. 78u-4(a)(7), including by the (United States) Private Securities Litigation Reform Act of 1995 (the "PSLRA"), Rule 23.1 of the Local Rules of the Southern and Eastern Districts of New York, and due process, constitute the best notice practicable under the circumstances, and shall constitute due and sufficient notice to all persons and entities entitled thereto.

10. In order to be entitled to participate in the Net Settlement Fund, in the event the Settlement is effected in accordance with the terms and conditions set forth in the Stipulation, each Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim (the "Proof of Claim"), substantially in the form attached hereto as Tab 2, must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than 120 calendar days after the date set for the mailing of the Notice. Such deadline may be further extended by court order. Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of the Court approving distribution of the Net Settlement Fund. Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

(b) The Proof of Claim submitted by each Class Member must satisfy the following conditions: (i) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding subparagraph; (ii) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator; (iii) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Class Member must be included in the Proof of Claim; and (iv) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

(c) As part of the Proof of Claim, each Class Member shall submit to the jurisdiction of the applicable Court as set out in the Stipulation with respect to the claim submitted, and shall (subject to effectuation of the Settlement) release all Settled Claims as provided in the Stipulation.

11. Pursuant to Rule 23(e)(3) of the (United States) Federal Rules of Civil Procedure, a new opportunity to request exclusion shall be given to individual Class Members who had an earlier opportunity to request exclusion but did not do so. U.S. Global Class Members shall be bound by all determinations and judgments in this Action, whether favorable or unfavorable, unless such persons request exclusion from the Class in a timely and proper manner, as hereinafter provided. A U.S. Global Class Member wishing to make such request shall mail the request in written form by first class mail postmarked no later than sixty (60) calendar days after the date set for the mailing of the Notice to the address designated in the Notice. Such request for exclusion shall clearly indicate the name, address and telephone number of the person seeking exclusion, that the sender requests to be excluded from the U.S. Global Class, and must be signed by such person. Such persons requesting exclusion are also directed to state: the date(s), price(s), and number(s) of shares of all purchases and sales of Nortel common stock, call options on Nortel common stock and put options on Nortel common stock during the Class Period. The request for exclusion shall not be effective unless it provides the required information and is made within the time stated above, or the exclusion is otherwise accepted by the Court.

12. Except for persons and entities who are also Canadian Class Members and who have not requested exclusion from the classes certified in the Canadian Class Actions, the persons and entities who requested exclusion from the U.S. Global Class in response to the

Notice of Pendency are excluded from the U.S. Global Class and shall not be entitled to submit any Proof of Claim forms and shall not be entitled to receive any payment out of the Net Settlement Fund as described in the Stipulation and in the Settlement Notice. Persons and entities who are also Canadian Class Members and who requested exclusion from the U.S. Global Class for purposes of this Action in response to the Notice of Pendency may submit Proof of Claim forms and shall be entitled to receive payments out of the Net Settlement Fund herein unless they also request exclusion from the applicable class in the Canadian Class Actions.

13. Comments and/or objections to the Settlement, the Plan of Allocation, or the application by Lead Plaintiffs Counsel for an award of attorneys' fees and reimbursement of expenses and any supporting papers should be mailed, on or before sixty (60) calendar days after the date set for the mailing of the Notice, to GCG at the address set forth in the Notice. Attendance at the hearing is not necessary; however, persons wishing to be heard orally in opposition to the approval of the Settlement, the Plan of Allocation, and/or the request by Lead Plaintiff' s Counsel for attorneys' fees are required to indicate in their written objection their intention to appear at the hearing. Persons who intend to object to the Settlement, the Plan of Allocation, and/or Lead Plaintiffs Counsel' s application for an award of attorneys' fees and expenses and desire to present evidence at the Settlement Fairness Hearing must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the Settlement Fairness Hearing. U.S. Global Class Members do not need to appear at the hearing or take any other action to indicate their approval.

14. Lead Plaintiffs' Counsel shall submit their reply papers, if any, in support of final approval of the Settlement and application for attorneys' fees and reimbursement of expenses by no later than seventy-five (75) calendar days after the date set for mailing of the Notice.

15. Any U.S. Global Class Member who does not object to the Settlement and/or the Plan of Allocation, and any Class Member who does not object to Lead Plaintiff s Counsel s application for an award of attorneys fees and reimbursement of litigation expenses in the manner prescribed in the Notice shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, adequacy or reasonableness of the proposed Settlement, the Order and Final Judgment to be entered approving the Settlement, the Plan of Allocation or the application by Lead Plaintiff s Counsel for an award of attorneys fees and reimbursement of expenses.

16. Pending final determination of whether the Settlement should be approved, the Lead Plaintiff, all U.S. Global Class Members, and each of them, and anyone who acts or purports to act on their behalf, shall not institute, commence or prosecute any action which asserts Settled Claims against any Released Party. The foregoing shall not be interpreted to apply to proceedings in respect of the seeking of approval of the Settlement in the Canadian Courts.

17. As provided in the Stipulation, Lead Plaintiff s Counsel may pay the Claims Administrator the reasonable fees and costs associated with giving notice to the Class and the review of claims and administration of the Settlement out of the Gross Settlement Fund without further order of the Court.

18. If (a) the Settlement is terminated by Nortel pursuant to ¶ 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and Lead Plaintiff s Counsel, Canadian Representative Plaintiffs Counsel or Nortel elect to terminate the Settlement as provided in ¶ 25 of the Stipulation; or (c) if the Settlement is terminated pursuant to ¶ 27 of the Stipulation, then, in any such event the terms of ¶ 28 of the Stipulation including

any amendment(s) thereof, shall apply, and this Preliminary Order shall be null and void, of no further force or effect, and without prejudice to any party, and may not be introduced as evidence or referred to in any actions or proceedings by any person or entity, and each party shall be restored to his, her or its respective position as it existed immediately prior to the execution of the Stipulation.

19. The Court retains jurisdiction over the Action to consider all further matters arising out of or connected with the Settlement.

Dated: New York, New York
_____, 2006

_____
UNITED STATES DISTRICT JUDGE

EXHIBIT A-1

NOTICE OF CERTIFICATIONS IN CANADA AND PROPOSED SETTLEMENTS OF CLASS ACTIONS, MOTIONS FOR ATTORNEYS' FEES AND SETTLEMENT FAIRNESS HEARINGS (NORTEL I NOTICE)

This Notice relates to the following actions (the "Nortel I Actions"):

In Re Nortel Networks Corp. Securities Litigation, Consolidated Civil Action No.: 2001-CV-1855 (RMB) in the United States District Court for the Southern District of New York;

Frohlinger v. Nortel Networks Corporation et al, Court File No.: 02-CL-4605 in the Ontario Superior Court of Justice;

Association de Protection des Epargnants et Investisseurs du Quebec v. Corporation Nortel Networks, No.: 500-06-000126-017 in the Superior Court of Quebec; and

Jeffery et al. v. Nortel Networks Corporation et al., Court File No.: S015159 in the Supreme Court of British Columbia.

If you bought Nortel Networks Corporation ("Nortel") common stock or call options on Nortel common stock, or you wrote (sold) put options on Nortel common stock, during the period October 24, 2000 through February 15, 2001, inclusive (the "Class Period"), your rights may be affected by class action lawsuit(s) and you may be entitled to a payment from a proposed class action settlement.

Courts in the United States and Canada have authorized this notice.
This is not a solicitation from a lawyer.

The "Settlement" described herein will provide total proceeds worth approximately $_____, including $438,667,428 in cash, plus 314,333,875 shares of common stock of Nortel ("Settlement Shares"), having an aggregate market value as of [date] of approximately $_____, for the benefit of the Class described herein (See response to question 1 below defining the "Class" and "Class Members"). Unless otherwise stated, all dollar amounts referenced herein are in U.S. dollars.

In addition, Nortel will adopt the corporate governance provisions described in Appendix A of this Notice. Nortel will also contribute to the Class one-quarter of the recovery, if any, it obtains in existing litigation by Nortel against certain former senior corporate officers.

The Settlement resolves lawsuits over whether Nortel misled investors about its historic and future earnings during the Class Period. The Settlement is contingent upon court approval of the settlement of several related actions against Nortel and other defendants in the United States and Canada.

Your legal rights are affected whether you act or do not act. Read this notice carefully.

YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT:

SUBMIT A CLAIM FORM BY [November 30, 2006]	The only way to get a distribution from the Net Settlement Fund and Net Settlement Shares.
EXCLUDE YOURSELF (Opt-out of the Class) BY [September 15, 2006]	Get no payment. This is the only option that allows you to ever be part of any other lawsuit against Nortel and the other Released Parties about the Settled Claims (as those terms are defined herein at question 12) .
OBJECT BY [September 15, 2006]	Write to the Courts) about why you do not like the Settlement, Plan of Allocation, or Attorneys' Fee Applications. See responses to questions 18, 20 and 22 below.
GO TO HEARINGS	Ask to speak in Court(s) about the Settlement, Plan of Allocation, or Attorneys' Fee Applications. See responses to questions 18, 20 and 22 below.
DO NOTHING	Get no payment. Give up rights.

These rights and options − **and the deadlines to exercise them** − are explained in this notice.

The Courts in charge of the various U.S. and Canadian actions subject to this Settlement still have to decide whether to approve the Settlement. Payments will be made if all of the Courts approve the Settlement and after appeals, if any, are resolved. Please be patient.

Le present avis est aussi disponible en francais. Vous pouvez l' obtenir sans frais en vous adressant a [Claim administrator + Web site] on a Belleau Lapointe.

SUMMARY NOTICE

Statement of Plaintiff Recovery

Pursuant to the Settlement described herein, a Settlement Fund consisting of $438,667,428 in cash has been established, and 314,333,875 shares of Nortel common stock, will be provided for the benefit of the Class. Lead Plaintiff estimates that there were approximately 868 million shares of Nortel common stock traded during the Class Period which may have been damaged. Lead Plaintiff estimates that the average recovery per damaged share of Nortel common stock purchased during the Class Period under the Settlement is 50.50 in cash and 0.362 Settlement Shares, per damaged share[1] before deduction of court-awarded attorneys' fees and expenses, and the costs of administration. Class Members who transacted in options on Nortel common stock

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1 An allegedly damaged share might have been traded more than once during the Class Period, and the indicated average recovery would be the total for all purchasers of that share.

may also receive a payment from the Settlement Fund, but the various terms of those options and available records concerning such option transactions do not permit a useful estimate to be provided concerning the number of affected options or the recovery on those option transactions.

See response to question 9 below concerning payments to Class Members. A Class Member' s actual recovery will be determined in accordance with the Plan of Allocation set forth on page ___ below.

Statement of Potential Outcome of Case

The parties strongly disagree on both liability and damages and do not agree on the average amount of damages per share that would be recoverable if plaintiffs were to have prevailed on each claim alleged.

Plaintiffs estimated that the potential damages to the Classes in the Nortel I Actions and in certain similar actions relating to a later class period (see response to question 8 below describing these "Nortel II Actions") could well have been in excess of the Gross Settlement Fund (as defined in response to question 1 below). The defendants deny that they are liable to the plaintiffs or the Class and deny that plaintiffs or the Class have suffered any damages.

Statement of Attorneys' Fees and Costs Sought

As more fully described in response to question 17 below, plaintiffs' counsel are moving before their respective Courts for awards of attorneys' fees and for reimbursement of expenses incurred in the prosecution of their Actions as follows:

Lead Plaintiffs' Counsel in the U.S. Action are moving for an award to counsel of attorneys' fees in cash and shares in an amount not to exceed ten percent (10%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the U.S. Action in an amount not to exceed $5 million.

Ontario National Class Counsel will move before the Ontario Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point seven percent (0.7%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the Ontario National Action in an amount not to exceed $225,000.

Quebec Class Counsel will move before the Quebec Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point forty five percent (0.45%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the Quebec Action in an amount not to exceed $150,000.

British Columbia Class Counsel will move before the British Columbia Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point twenty five percent (0.25%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the British Columbia Action in an amount not to exceed $100,000.

The total requested attorneys fees and litigation expenses would amount to an average of 6.4¢ in cash and 0.041 Settlement Shares, per damaged share in total for fees and expenses. Application will also be made for reimbursement to the Lead Plaintiff Ontario Public Service Employees' Union Pension Plan Trust Fund for an amount not to exceed $30,000 for reimbursement of their reasonable costs and expenses (including lost wages) directly relating to its representation of the "U.S. Global Class" (as defined in response to question 1 below). Application may also be made by one of the plaintiffs in the Quebec Action for an award of $150,000.

Further Information

Further information may be obtained by contacting the following counsel:

For the U.S. Action: Lead Plaintiff' s Counsel: George A. Bauer III, Esq., Milberg Weiss Bershad & Schulman LLP, One Pennsylvania Plaza, New York, New York 10119-0165; or Murray Gold, Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, Ontario M5H 3R3.

For the Ontario National Action: Ontario National Class Counsel: Joel P. Rochon, Rochon Genova LLP, 121 Richmond Street West, Suite 900, Toronto, Ontario M5H 2K1.

For the Quebec Action: Quebec Class Counsel: Daniel Belleau, Belleau Lapointe, S.A., 306 Place D' Youville, B-10, Montreal, Quebec H2Y 2B6.

For the British Columbia Action: British Columbia Class Counsel: David Klein, Klein Lyons, 1100-1333 West Broadway, Vancouver, British Columbia V6H 4C1.

Reasons for the Settlement

Plaintiffs' principal reason for the Settlement is the benefit to be provided to the Class now. This benefit must be compared to the risk that no recovery might be achieved after a contested trial and likely appeals, possibly years into the future, and the further significant risk that even if the plaintiffs and the Class successfully obtained a substantial judgment (after years of additional litigation and appeals) the defendants might not be able to pay an amount significantly greater than the value of the Gross Settlement Fund.

Lead Plaintiff and Lead Plaintiffs Counsel, in consultation with their investment banking and economic damages experts, considered the Company' s current and anticipated financial condition, and also considered the extent of the Company' s applicable insurance and the likely depletion of that insurance as a result of continued litigation, both of which, in their view, limited the amount that might have been recovered for the U.S. Global Class after trial.

[END OF COVER PAGE]

WHAT THIS NOTICE CONTAINS

Table of Contents

BASIC INFORMATION

1. Why did I get this notice package?

You or someone in your family may have purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive. Such purchasers may be members of the Classes in the Nortel I Actions (as defined below) and are generally referred to herein as "Class Members" and are collectively referred to as the "Class." Class Members include members of the "U.S. Global Class," the "Ontario National Class," the "Quebec Class," and/or the "British Columbia Class."

The Courts have directed that this Notice be sent to Class Members because they have a right to know about their options prior to the Courts deciding whether to approve the settlement of these lawsuits, and to understand how a class action lawsuit may generally affect their rights. If the Courts approve the Settlement, and after any objections and appeals are resolved, an administrator appointed by the Courts will make the payments that the Settlement allows.

This package explains the lawsuits, the Settlement, Class Members' legal rights, what benefits are available, who is eligible for them, and how to get them.

The Courts in charge of the Nortel I Actions are as follows:

Court	Action
United States District Court for the Southern District of New York ("U.S. Court")	*In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01-CV-1855 (RMB) ("U.S. Action")
Ontario Superior Court of Justice ("Ontario Court")	*Frohlinger v. Nortel Networks Corporation et al.*, Court File No. 02-CL-4605 ("Ontario National Action")
Superior Court of Quebec, District of Montreal ("Quebec Court")	*Association de Protection des Epargnants et Investisseurs du Quebec v. Corporation Nortel Networks*, No : 500-06-000126-017 ("Quebec Action")
British Columbia Supreme Court ("B.C. Court")	*Jeffery et al. v. Nortel Networks Corporation et al., Vancouver Registry*, Court File No. S015159 ("British Columbia Action")

The entities who sued are called the plaintiffs, and the company and the persons they sued, Nortel and certain of its officers and directors, are called the defendants.

The Settlement in the U.S. Action resolves the claims on behalf of persons and entities, wherever located, who bought Nortel common stock or call options on Nortel common stock or who wrote (sold) put options on Nortel common stock during the period October 24, 2000 through February 15, 2001, inclusive, and suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange (the "U.S. Global Class"). In addition, the Settlement covers the three Canadian actions referred to above (the "Canadian Actions"). The Settlement in the Canadian Actions resolve the claims on behalf of the following persons and entities:

> Ontario National Class: All persons or entities, except members of the Quebec Class or British Columbia Class, who while residing in Canada at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between October 24, 2000 through February 15, 2001, inclusive.
>
> Quebec Class: All persons, who, while residing in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between October 24, 2000 through February 15, 2001, inclusive.
>
> British Columbia Class: All persons or entities, who, while residing in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between October 24, 2000 through February 15, 2001, inclusive.

Members of the classes certified in the Canadian Actions who suffered damages as a result of their Class Period transactions in Nortel securities are also members of the U.S. Global Class.

Regardless of how many classes you are a member of, you will not be entitled to recover more than once for your claim.

2. What are these lawsuits about?

Nortel is a Canadian corporation with its principal executive offices located in Brampton, Ontario, Canada and has offices located throughout the United States and Canada. Nortel filed annual, quarterly and other reports with the Ontario Securities Commission and the (United States) Securities and Exchange Commission (the "SEC") and its common stock is listed and traded on both the Toronto Stock Exchange and the New York Stock Exchange under the symbol NT. Nortel is engaged in the business of providing networking and communication services to customers located in over 150 countries.

On January 18, 2002, Lead Plaintiff in the U.S. Action filed a Second Consolidated Amended Class Action Complaint (the "Complaint") alleging that the defendants made materially false and misleading statements and omissions in Nortel' s financial reports concerning its revenue and earnings and the value of its receivables, in violation of (United States) Generally Accepted Accounting Principles ("GAAP"), and in other public documents disseminated to the investing public, thereby artificially inflating the price of the securities of Nortel and damaging members of the U.S. Global Class.

The Complaint alleges that during the Class Period, the defendants materially misrepresented Nortel' s revenues and earnings and the value of Nortel' s receivables in public reports and statements disseminated to the investing public. The Complaint further alleges that these material misrepresentations resulted in Nortel' s issuance of financial statements, and other public statements regarding Nortel' s future business prospects, which violated Section 10(b) of the (United States) Securities Exchange Act of 1934, as amended (the "Exchange Act"), 15 U.S.C. § 78j(b), Rule 10b-5 promulgated thereunder, 17 C.F.R. §240.10b-5, and Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a). The Complaint further alleges that, as a result of defendants' materially false and misleading statements, the price of Nortel common stock was artificially inflated during the Class Period, thereby causing damage to members of the U.S.' Global Class who purchased Nortel common stock or call options on Nortel common stock, or who wrote (sold) put options on Nortel common stock, during the Class Period. Lead Plaintiff' s Counsel obtained and analyzed millions of pages of documents and took the depositions of some twelve fact witnesses.

Similar factual allegations and claims are made in the Canadian Actions under Canadian law.

The defendants deny that they violated any laws or did anything wrong. Defendants believe that their actions were proper under the U.S. federal securities laws and applicable Canadian law, assert that they are not liable to the plaintiffs or the Class, and have asserted several affirmative defenses to the allegations in the Complaints.

3. Why are these class actions?

In a class action, one or more people, called class representatives, sue on behalf of people who have similar claims. All these people are a class or class members. Bringing a case, such as this one, as a class action allows uniform adjudication of many similar claims of persons and entities that might be economically too small to bring in individual actions. One court resolves the issues for all class members, except for those who exclude themselves from the class.

In these Nortel I Actions the class representatives are:

Nortel I Action	Class Representatives
U.S. Action	Ontario Public Service Employees' Union Pension Plan Trust Fund
Ontario National Action	Leslie Frohlinger
Quebec Action	Association de Protection des Epargants et Investisseurs du Quebec and Andre Dussault
British Columbia Action	Janie Jeffery and Ronald Mensing

4. Why is there a Settlement?

The parties recognized that the claims asserted in the Nortel I Actions, as well as in the Nortel II Actions, if ultimately proved by the plaintiffs in those actions, could have resulted in Judgments that exposed defendants to substantial damage awards. Plaintiffs recognized that, even if they were successful in obtaining judgments against Nortel and the other defendants, there was a significant risk that such judgments would not be fully collectible. Nortel recognized that the continued defense of the Nortel I Actions and the Nortel II Actions would require significant attention of its management and would distract Nortel from pursuing its business affairs, and that a plaintiffs' judgment could be a very significant impediment to Nortel' s future success. Accordingly, the parties considered that a resolution of the Nortel I Actions and the Nortel II Actions was advisable.

The Courts have not finally decided in favor of the plaintiffs or the defendants. Instead, all parties agreed to a settlement. That way, they avoid the risks and cost of trial, the people affected will get compensation, and Nortel will be released of burdensome and distracting litigation that potentially could be a significant impediment to Nortel' s future success. The Class Representatives and their counsel think the Settlement is fair, reasonable and adequate, and in the best interests of, all Class Members.

WHO IS IN THE SETTLEMENT

To see if you will get cash and Nortel common stock from this Settlement, you first have to decide if you are a Class Member.

5. How do I know if I am part of the Settlement?

The U.S. Court decided for all purposes of the U.S. Action that everyone who fits the following description is a Class Member: *all persons and entities who purchased Nortel common stock, who purchased call options on Nortel common stock or who wrote (sold) put options on Nortel common stock (the "Nortel Securities") during the period between October 24, 2000 through February 15, 2001, inclusive (the "Class Period") and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange*. The U.S. Global Class is not limited to U.S. residents.

The three Canadian Courts generally decided for the purposes of the proposed Settlement that everyone residing in Canada who fits the following description will be Class Members: *all persons and entities who purchased Nortel common stock, who purchased call options on Nortel common stock or who wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive*. To determine which specific Canadian Class you might be part of, please see the definitions of Ontario National Class, Quebec Class and British Columbia Class above in the response to question 1. Unlike the requirements for membership in the U.S. Global Class, there is no requirement for you to have suffered damages to be a member of Ontario National Class, Quebec Class or British Columbia Class.

6. Are there exceptions to being included?

Excluded from the Class are: Nortel, Clarence Chandran, Frank Dunn and John A. Roth, members of any of those individuals' immediate families, any entity in which Nortel, Clarence Chandran, Frank Dunn or John A. Roth has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, Clarence Chandran, Frank Dunn or John A. Roth, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the defendants (the "Excluded Persons").

A prior notice of the pendency of the U.S. Action as a class action (the "Notice of Pendency") dated March 10, 2004 was mailed to U.S. Global Class Members beginning on April 12, 2004 and a summary notice was published. If you submitted a request for exclusion in accordance with the requirements in the Notice of Pendency, then you are excluded from the U.S. Global Class. Persons and entities who are members of the Classes certified in the Canadian Actions (*see* response to question 1 above) and who previously requested exclusion from the U.S. Global Class in the U.S. Action may nevertheless submit Proof of Claim forms and shall be entitled to share in the Settlement' s proceeds unless they opt out of the Classes certified in the Canadian Actions. Such persons and entities will be included in, and bound by, the Settlement in the Canadian Actions unless they also now opt out (request exclusion) from the Canadian Actions. Persons and entities who previously requested exclusion and are NOT members of the Classes certified in the Canadian Actions remain excluded from the U.S. Global Class and do not have to take any action to exclude themselves at this time and may not share in the settlement proceeds.

If one of your mutual funds owned shares of Nortel common stock during the Class Period, that alone does not make you a Class Member. You are a Class Member only if you directly purchased shares of Nortel common stock, purchased call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the Class Period. Contact your broker to see if you purchased shares of Nortel common stock, purchased call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the Class Period.

If you ***sold*** Nortel common stock, ***sold*** call options on Nortel common stock, or ***purchased*** put options on Nortel common stock during the Class Period that alone does not make you a Class Member. You are a Class Member only if you ***purchased*** Nortel common stock, ***purchased*** call options on Nortel common stock, or ***wrote*** (***sold***) put options on Nortel common stock during the Class Period.

7. What if I am still not sure I am included?

If you are still not sure whether you are included, you can ask for free help. You can call 1-800-_____-_____or visit [***www***. _____.***com***] for more information. Or you can fill out and return the Proof of Claim form described in response to question 10 below, to see if you qualify. Note, however, that if you return a Proof of Claim form you will be releasing all your "Settled Claims" against the "Released Parties." (See response to question 12 below.)

THE SETTLEMENT BENEFITS – WHAT YOU GET

8. What does the Settlement provide?

In exchange for the Settlement and/or dismissal of the Nortel I Actions, Nortel and its insurers agreed to create cash settlement funds for the benefit of the Class herein consisting of $438,667,428 in cash, which is earning interest, and Nortel agreed to issue 314,333,875 Settlement Shares of its common stock, having an aggregate market value as of [**date**] of [$], to be divided, after fees and expenses as awarded by the Courts, among all Class Members who submit valid Proof of Claim forms. Nortel has also agreed to share with the Class 25% of any actual gross recovery obtained in existing litigation against certain former Nortel officers (the "Contingent Recovery"). The cash, Settlement Shares, and Contingent Recovery, and any interest or dividends earned thereon, are referred to as the "Gross Settlement Fund."

In addition, Nortel will adopt the corporate governance provisions in Appendix A to this Notice.

A separate lawsuit, *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP) (S.D.N.Y.) and related Canadian actions in Ontario and Quebec (the "Nortel II Actions"), are also being settled on behalf of investors who purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between **April 24, 2003 through April 27, 2004, inclusive (the "Nortel II Class Period")**, including, but not limited to, those persons or entities who traded in such Nortel securities on the New York Stock Exchange and/or the Toronto Stock Exchange. The settlement in the Nortel II Actions will provide $370,157,418 in cash and 314,333,875 Settlement Shares to the members of the Classes in the Nortel II Actions. It is a condition of both the Settlement in the Nortel I Actions and the settlement in the Nortel II Actions that the Settlement be approved by each of the Courts in all of the actions. The Settlement is also contingent upon appropriate securities regulatory and stock exchange approvals.

9. How much will my payment be?

The amount of your payment and Settlement Shares will depend on the number of valid Proof of Claim forms that Class Members send in, how many shares of Nortel common stock you bought, the number of call options on Nortel common stock you bought, and the number of put options on Nortel common stock you wrote (sold), and when you bought and sold them.

The value of the Settlement Shares is expected to fluctuate over time and is not guaranteed. No representation can be made as to what the value of the Settlement Shares may be at the time the Settlement Shares are distributed to Class Members who submitted acceptable Proofs of Claim. Class Members receiving Settlement Shares who may be deemed to be "affiliates" of Nortel, within the meaning of (United States) federal securities laws, would be subject to certain limitations on the resale of Settlement Shares as provided in Rule 145 under the (United States) Securities Act of 1933, as amended, 15 U.S.C. § 77c(a)(1). Any Class Member who might be deemed to be an affiliate should consult with counsel as to these limitations. In addition, the resale of the Settlement Shares in Canada may be subject to certain limitations under Canadian securities laws, which may affect some Class Members.

You can calculate your Recognized Claim in accordance with the formula shown below in the Plan of Allocation. It is unlikely that you will get a payment for all of your Recognized Claim. After all Class Members have sent in their Proof of Claim forms, the payment you get in cash and Nortel common stock will be part of the Net Cash Settlement Fund and a part of the Net Settlement Shares equal to your Recognized Claim divided by the total of everyone' s Recognized Claims. See the Plan of Allocation on page [_____] for more information on how your Recognized Claim will be determined. Payments to members of the Quebec Class may be subject to deductions pursuant to Quebec law payable to the *Fonds d 'aide aux recours collectifs* of Quebec.

HOW YOU GET A PAYMENT – SUBMITTING A PROOF OF CLAIM FORM

10. How can I get a payment?

To qualify for a payment, you must send in a Proof of Claim form. A Proof of Claim form is being circulated with this Notice. You may also get a Proof of Claim form on the Internet at [***www._____ ..com***]. Read the instructions carefully, fill out the Proof of Claim form, include all the documents the form asks for, sign it, and mail it, by first class mail, postmarked no later than _____, **2006**.

11. When will I get my payment?

The U.S. Court will hold a hearing on _____, **2006**, to decide whether to approve the Settlement. Settlement approval hearings will be held in the Canadian Actions on dates shown below in the response to question 20. The Courts in the Nortel II Actions will also hold hearings in the same time frame as these hearings. Approval of settlement of the Nortel II Actions is also a condition to the Settlement of these actions. If all the Courts approve the Settlement, there may be appeals. It is always uncertain whether these appeals can be resolved, and resolving them can take time, perhaps more than a year. It also takes time for all the Proofs of Claim to be processed. After conclusion of the approval hearings, any appeals, and claims processing, the funds and Settlement Shares will be distributed. Please be patient.

12. What am I giving up to get a payment or stay in the Class?

Unless you validly request exclusion ("opt out"), you are staying in the Class, and that means that, upon the "Effective Date," you will release all "Settled Claims" (as defined below) against the "Released Parties" (as defined below).

"Settled Claims" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or unmatured, whether class or individual in nature, including both known claims and Unknown Claims (as defined herein), (i) that have been asserted in any of the Nortel I Actions against any of the

Released Parties, or (ii) that could have been asserted in any forum by the Class Members against any of the Released Parties, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Nortel I Actions and that relate to the purchase of Nortel common stock or call options on Nortel common stock or the writing (sale) of put options on Nortel common stock during the Class Period, or (iii) any oppression or other claims under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the Nortel I Actions. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the (United States) *Employee Retirement Income Security Act of 1974*, as amended, 29 U.S.C. § 1001, et seq. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include: (a) the action in *Rohac et al. v. Nortel Networks Corp. et al.*, Ontario Superior Court of Justice, Court File No. 04-CV-3268 and (b) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the Canada Business Corporations Act to commence a representative action in the name of and on behalf of Nortel against certain of the Released Parties.

"Released Parties" means any and all of the defendants in the Nortel I Actions (namely: Nortel, Clarence Chandran, Frank Dunn, John Roth, F. William Conner, Chahram Bolouri, William R. Hawe, and Deloitte & Touche LLP), their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any of the defendants in the Nortel I Actions has a controlling interest or which is related to or affiliated with any of the defendants in the Nortel I Actions, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the defendants in the Nortel I Actions.

"Unknown Claims" means any and all Settled Claims which any of the Lead Plaintiff, Canadian Representative Plaintiffs, or Class Members do not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties, which if known by him, her or it might have affected his, her or its decision(s) with respect to the Settlement. With respect to any and all Settled Claims, the parties stipulate and agree that, upon the Effective Date, the Lead Plaintiff, Canadian Representative Plaintiffs shall expressly waive, and each Class Member shall be deemed to have waived, and by operation of the Judgments shall have expressly waived, any and all provisions, rights and benefits conferred by any law of any state, province or territory of the United States or Canada, or principle of common law, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing

the release, which if known by him must have materially affected his settlement with the debtor.

Lead Plaintiff, Canadian Representative Plaintiffs and Nortel acknowledge, and Class Members by operation of law shall be deemed to have acknowledged, that the inclusion of "Unknown Claims" in the definition of Settled Claims was separately bargained for and was a key element of the Settlement.

In addition, upon the Effective Date of the Settlement, all Class Members on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns, with respect to each and every Settled Claim, release and forever discharge, and be forever enjoined from prosecuting, any Settled Claims against any of the Released Parties, and shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit, cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date.

The "Effective Date" will occur when Orders entered by all the Courts approving the Settlement in the Nortel I Actions and the Nortel II Actions become final and not subject to appeal and when all conditions of the Stipulation have been met.

If you remain a member of the Class, the applicable Court' s orders will apply to you and legally bind you.

REQUESTING EXCLUSION ("OPTING OUT") FROM THE SETTLEMENT

If you do not want a payment from this Settlement, but you want to keep any right you may have on your own to sue or continue to sue Nortel and the other Released Parties about the Settled Claims, then you must take steps to get out of the Class. This process is called excluding yourself from − or is sometimes referred to as "opting out" of− the Class. Nortel may withdraw from and terminate the Settlement if persons or entities who would otherwise be Class Members, and who purchased in excess of a certain amount of Nortel common stock, opt out of the Class.

13. How do I get out of the proposed Settlement?

To opt out of the Class, you must send a signed letter by mail stating that you "request exclusion from the Class in the *Nortel I Securities Litigation*" Your letter should include the date(s), price(s), and number(s) of shares of all purchases and sales of Nortel common stock and/or Nortel common stock options during the Class Period. In addition, be sure to include your name, address, telephone number, and your signature. You must mail your exclusion request by first class mail postmarked no later than _____, 2006 to:

Nortel I Securities Litigation Exclusions
c/o The Garden City Group, Inc. Claims Administrator
P.O. Box 0000
City, ST 00000-0000

You cannot exclude yourself by telephone or by e-mail. If you ask to be excluded, you will not get any settlement payment, and you cannot object to the Settlement. You will not be legally bound by anything that happens in these Nortel I Actions, and you may be able to sue (or continue to sue) Nortel and the other Released Parties in the future.

14. If I do not exclude myself, can I sue Nortel and the other Released Parties for the same thing later?

No. Unless you exclude yourself, you give up any rights to sue Nortel and the other Released Parties for any and all Settled Claims. If you have a pending lawsuit, speak to your lawyer in that case immediately. You must exclude yourself from the Class to continue your own lawsuit. Remember, the exclusion deadline is _____, **2006**.

15. If I exclude myself, can I get a payment from the proposed Settlement?

No. If you exclude yourself, do not send in a Proof of Claim form to ask for any money or shares. But, you may exercise any right you may have to sue, continue to sue, or be part of a different lawsuit against Nortel and the other Released Parties.

NOTICE REGARDING PERSONS OR ENTITIES WHO PREVIOUSLY REQUESTED EXCLUSION FROM THE U.S. GLOBAL CLASS

The U.S. Court previously certified the U.S. Action to proceed as a class action on behalf of the U.S. Global Class. As described in the prior Notice of Pendency, Class Members were previously provided the opportunity to exclude themselves from the U.S. Global Class.

Persons and entities who requested exclusion in connection with the prior Notice of Pendency are advised as follows:

Except with respect to persons and entities who are members of the Classes certified in the Canadian Actions, persons and entities who previously requested exclusion from the U.S. Global Class are excluded from the U.S. Global Class and may not submit a Proof of Claim or participate in the Settlement.

Persons and entities who are members of the Classes certified in the Canadian Actions and who previously requested exclusion will nevertheless be included in, and bound by, the Settlement in the Canadian Actions unless they also now opt out (request exclusion) from such Canadian Actions.

Persons and entities who are members of the Classes certified in the Canadian Actions and who previously requested exclusion may nevertheless submit Proof of Claim forms and shall be

entitled to receive payments out of the Net Settlement Fund herein unless they also now opt out of such Canadian Actions.

THE LAWYERS REPRESENTING YOU

16. Do I have a lawyer in this case?

The following firms represent Class Members:

For the U.S. Action: Lead Plaintiffs Counsel: Milberg Weiss Bershad & Schulman LLP, One Pennsylvania Plaza, New York, New York 10119-0165; assisted by Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, Ontario M5H 3R3. On May 18, 2006 in the United States District Court for the Central District of California (Los Angeles), Milberg Weiss Bershad & Schulman LLP and two of its partners, David J. Bershad and Steven G. Schulman, were named as defendants in an indictment based on allegations that are unrelated to the present case. Milberg Weiss Bershad & Schulman LLP and the two partners have publicly stated that they are innocent and intend to fight the charges.

For the Ontario National Action: Rochon Genova LLP, 121 Richmond Street West, Suite 900, Toronto, Ontario M5H 2K1 and Lerners LLP, 130 Adelaide Street West, Suite 2400, Toronto, Ontario M5H 3P5;

For the Quebec Action: Belleau Lapointe, S.A., 306 Place D' Youville, B-10, Montreal, Quebec H2Y 2B6, assisted by Unterberg Labelle Lebeau s.e.n.c, 1980 Sherbrooke west, H3H 1E8;

For the British Columbia Action: Klein Lyons, 1100-1333 West Broadway, Vancouver, British Columbia V6H 4C1.

These lawyers are called Class Counsel. You will not be separately charged for these lawyers. The U.S. Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the U.S. Action. The Ontario Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the Ontario National Action. The Quebec Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the Quebec Action. The B.C. Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the British Columbia Action. All lawyers' fees and expenses awarded by the respective Courts will be paid from the Gross Settlement Fund. Class Members may, but are not required to, hire their own lawyers at their own expense.

17. How will the lawyers and the Class Representatives be paid?

Plaintiffs' counsel are moving before their respective Courts for awards of fees and for reimbursement of expenses incurred in the prosecution of their Actions as follows:

Lead Plaintiffs Counsel in the U.S. Action, including all the firms listed in this sub-paragraph, are moving before the U.S. Court for an award to counsel of attorneys' fees in the amount not to exceed ten percent (10%) of the Gross Settlement Fund after deducting litigation expenses awarded by the U.S. Court, and for reimbursement of expenses incurred in connection with the prosecution of the U.S. Action in an amount not to exceed $5 million. Lead Plaintiffs Counsel are applying pursuant to the terms of a retainer agreement negotiated and entered into with Lead Plaintiff Ontario Public Service Employees' Union Pension Plan Trust Fund, a sophisticated institutional investor. The retainer agreement requires Lead Plaintiffs Counsel to obtain the approval of the Trustees of the Ontario Public Service Employees' Union Pension Plan Trust Fund for a fee application prior to submission of the application to the Court. Lead Plaintiffs Counsel, Milberg Weiss Bershad & Schulman LLP, formerly known as Milberg Weiss Bershad Hynes & Lerach LLP, was appointed as Lead Counsel for Plaintiff and the U.S. Global Class and has continuously acted as a lead counsel since the inception of the U.S. Action. The Ontario law firm of Koskie Minsky LLP is regular pension counsel to the Lead Plaintiff, the Ontario Public Service Employees' Union Pension Plan Trust Fund, and has worked for the Lead Plaintiff and the U.S. Global Class in the U.S. Action generally, and in foreign discovery-related proceedings taken in the Province of Ontario, including through letters rogatory. In addition, a number of other law firms, including the New York law firms of Abraham, Fruchter & Twersky LLP (formerly Fruchter & Twersky LLP), Weiss & Lurie (formerly Weiss & Yourman), Lovell Stewart Halebian, LLP, Wechsler Harwood LLP (formerly Wechsler Harwood Halebian & Feffer, LLP), and Murray, Frank & Sailer LLP, and the Philadelphia law firm of the Law Offices of Bernard M. Gross, P.C. have provided substantial assistance to Lead Plaintiffs Counsel. Compensation for all of these firms are included in the above fee application. Lead Plaintiffs Counsel have fee sharing agreements with Koskie Minsky LLP and Abraham, Fruchter & Twersky LLP relating to the prosecution of the U.S. Action. None of the law firms referenced above has advised the Lead Plaintiff with respect to its review of a proposed fee application or its determination as to whether the Lead Plaintiff should approve a proposed fee application, including the amount thereof, in whole or in part.

Ontario National Class Counsel will move before the Ontario Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point seven percent (0.7%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the Ontario National Action in an amount not to exceed $225,000.

Quebec Class Counsel will move before the Quebec Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point forty five percent (0.45%) of the Gross Settlement Fund and for reimbursement of expenses incurred in connection with the prosecution of the Quebec Action in an amount not to exceed $150,000, plus fees due to professional advisors not to exceed $150,000. Quebec counsel are applying for the above fees pursuant to the terms of a retainer agreement entered into with A.P.E.I.Q/MEDAC, an association for the protection of Quebec investors.

British Columbia Class Counsel will move before the British Columbia Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point twenty five percent (0.25%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the British Columbia Action in an amount not to exceed $100,000.

Plaintiffs' counsel, without further notice to the Class, may subsequently apply to the appropriate Court for fees and expenses incurred in connection with administering and distributing the settlement proceeds to the members of the Class and any proceedings subsequent to the hearings.

Application is also be made for reimbursement to the Lead Plaintiff Ontario Public Service Employees' Union Pension Plan Trust Fund for an amount not to exceed $30,000 for reimbursement of their reasonable costs and expenses (including lost wages) directly relating to its representation of the U.S. Global Class. Application may also be made by one of the plaintiffs in the Quebec Action for an award of $150,000.

OBJECTING TO THE SETTLEMENT, PLAN OF ALLOCATION AND APPLICATIONS FOR ATTORNEYS' FEES AND REIMBURSEMENT OF LITIGATION EXPENSES

If you are a Class Member, you can tell the Courts that you do not agree with the Settlement, or some part of it, the proposed Plan of Allocation, and/or any of the applications for attorneys' fees and reimbursement of litigation expenses.

18. How do I tell the Courts that I do not like the Settlement, the proposed Plan of Allocation, and/or any of the applications for attorneys' fees and reimbursement of litigation expenses?

Any Class Member, no matter where he, she or it resides, can object to the Settlement, or any of its terms, to the proposed Plan of Allocation, and/or to any of the applications by plaintiffs' counsel for awards of fees and expenses. You may write to the Claims Administrator setting out your objection. You may give reasons why you think the Settlement terms or arrangements, the proposed Plan of Allocation, and/or any of the applications for attorneys' fees or expenses, should not be approved by the Courts addressing those matters. The Claims Administrator will provide copies of your objections to each of the Courts and to counsel for all the parties. The Courts will consider your views if you provide your objection to the Claims Administrator within the deadline identified and you are a member of the class certified by the Court. However, it is in the discretion of each of the Courts whether to consider the objections filed by members of the other classes not certified by that Court.

Although it is up to each Court whether to hear the oral objections of persons who are members of other classes not certified by that Court, if you are a member of one or more of the classes described herein, and you wish to present your views in person or through a lawyer to a particular Court, you should follow the procedures for submitting objections set for in this response and in the response to question 22 below.

To object to the Settlement, the proposed Plan of Allocation and/or any of the applications for attorneys' fees and expenses in these Nortel I Actions, you should send a signed letter stating that you object to the Settlement, the proposed Plan of Allocation and/or the applications by one or more of plaintiffs' counsel for awards of attorneys' fees and expenses in the *In re Nortel I Securities Litigation*,. Be sure to include your name, address, telephone number, and your signature, identify the date(s), price(s), and number(s) of shares of all purchases and sales of Nortel common stock and/or Nortel common stock options you made during the period

October 24, 2000 through February 15, 2001, inclusive, and state the reasons why you object to the Settlement, the Plan of Allocation and/or the application by Lead Plaintiffs Counsel for an award of attorneys' fees and expenses. Your objection must be mailed to the Claims Administrator at the following address, on or before _____, 2006:

Nortel I Securities Litigation Objections
c/o The Garden City Group, Inc., Claims Administrator
P.O. Box
_____ , ___ _____

You do not need to go to any of the Settlement Fairness Hearings to have your written objection considered by the appropriate Court(s). At the Settlement Fairness Hearings, any Class Member who has not previously submitted a request for exclusion from the Class and who has complied with the procedures set out in this response and the response to question 22 below for filing with the Court(s) and providing to the counsel for plaintiffs and defendants a statement of an intention to appear at the Settlement Fairness Hearing(s) may also appear and be heard, to the extent allowed by the applicable Court(s), to state any objection to the Settlement, the Plan of Allocation or plaintiffs' counsel' s motions for an award of legal fees and reimbursement of expenses. Any such objector so appearing may appear in person or arrange, at that objector' s expense, for a lawyer to represent the objector at the Hearing(s).

Any Class Member who does not object to the Settlement, the Plan of Allocation, and/or any application for an award of attorneys' fees and reimbursement of litigation expenses in the manner prescribed above shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, adequacy or reasonableness of the proposed Settlement, the Order and Final Judgment to be entered approving the Settlement, the Plan of Allocation or the applications for awards of attorneys' fees and reimbursement of expenses.

19. What is the difference between objecting and excluding?

Objecting is simply telling the Court that you do not like something about the proposed Settlement. You can object only if you stay in the Class. Excluding yourself is telling the Court that you do not want to be part of the Class. If you exclude yourself, you have no basis to object because the case no longer affects you.

THE SETTLEMENT FAIRNESS HEARINGS

The Courts will hold hearings to decide whether to approve the proposed Settlement. You may attend and you may ask to speak, but you do not have to.

20. When and where will the Courts decide whether to approve the proposed Settlement?

The Courts will hold Settlement Fairness/Approval Hearings as follows:

in the U.S. Action: at ___.: ___ ___m. on___day,_____, 2006, at the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, New York, NY.

in the Ontario National Action: at ___.: ___ ___m. on___day,_____, 2006 , at the Ontario Superior Court of Justice, 361 University Avenue, Toronto, Ontario.

in the Quebec Action: at ___.: ___ ___m. on___day,_____, 2006, at the Superior Court of Quebec, District of Montreal, 1 Notre-Dame East, Montreal, Quebec.

in the British Columbia Action at___.: ___ ___m. on___day,_____, 2006, at the Supreme Court of British Columbia, 800 Smithe Street, Vancouver, British Columbia.

At these hearings, each Court will consider whether the Settlement is fair and reasonable and satisfies the legal requirements in each jurisdiction. At the Settlement Fairness Hearings, each Court also will consider the proposed Plan of Allocation for the proceeds of the Settlement. In addition, the U.S. Court will consider the fee and expense application by plaintiffs' counsel in the U.S. Action, and the respective Canadian Courts will consider the fee and expense applications by plaintiffs' counsel in the Canadian Actions. The Courts will take into consideration any written objections filed in accordance with the instructions shown at the response to question 18. The Courts also may listen to people who have properly indicated, within the deadline identified above, an intention to speak at the hearing(s); however, decisions regarding the conduct of the hearing(s) will be made by the appropriate Court. See response to question 22 for more information about speaking at the hearing(s). After each hearing, each Court will decide whether to approve the Settlement. If the Courts approve the Settlement, each Court may also decide how much to pay to plaintiffs' counsel appearing in the Nortel I or Nortel II Action before it. Only the U.S. Court will decide the amount of fees and expenses to be awarded to plaintiffs' counsel in the U.S. Action, and only the respective Canadian Courts will decide the amount of fees and expenses to be awarded to plaintiffs' counsel in the Canadian Actions. It is not known how long these decisions will take.

You should be aware that any of the Courts may change the date(s) and time(s) of the Settlement Fairness Hearings. Thus, if you want to come to any of the hearings, you should check with plaintiffs' counsel before coming, to be sure that the date(s) and/or time(s) have not changed.

21. Do I have to come to any of the Settlement Fairness Hearings?

No. Plaintiffs' counsel will answer questions any of the Courts may have. However, you are welcome to come at your own expense. If you send an objection, you do not have to come to Court to talk about it. As long as you filed your written objection on time, the Court(s) will consider it. You may also pay your own lawyer to attend, but it is not necessary. Class Members do not need to appear at any hearing or take any other action to indicate their approval.

22. May I speak at the Settlement Fairness Hearings?

If you object to the Settlement, the Plan of Allocation and/or the application(s) by any counsel for an award of attorneys' fees and expenses, you may ask the appropriate Court for permission to speak at the Settlement Fairness Hearing(s). To do so, you must include with your objection (see question 18 above) a statement stating that it is your "Notice of Intention to Appear" in the appropriate Nortel I Action. Persons who intend to object to the Settlement, the Plan of Allocation, and/or plaintiffs' counsel' s applications for awards of legal fees and reimbursement of expenses and desire to present evidence at the Settlement Fairness Hearing(s) must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the Settlement Fairness Hearing(s). You may not be entitled to speak at the Settlement Fairness Hearing(s) if you excluded yourself from the Class, if you are not a member of the class in which the Court is holding the Settlement Fairness Hearing, or if you have not provided written notice of your intention to speak at the Settlement Fairness Hearing(s) by the deadline identified, and in accordance with the procedures described in response to question 18 and this response.

IF YOU DO NOTHING

23. What happens if I do nothing at all?

If you do nothing, you will get no money or shares from this Settlement, and you will be precluded from starting a lawsuit, continuing with a lawsuit, or being part of any other lawsuit against Nortel and the other Released Parties about the Settled Claims, ever again. To share in the Net Settlement Fund you must submit a Proof of Claim form (see question 10). To start, continue or be a part of any other lawsuit against Nortel and the other Released Parties about the Settled Claims you must have properly excluded yourself from the Class in accordance with the procedures set forth in this Notice (see questions 13 − 15).

GETTING MORE INFORMATION

24. Are there more details about the proposed Settlement?

This Notice summarizes the proposed Settlement. More details are set forth in a Stipulation and Agreement of Settlement dated _____, 2006 (the "Stipulation"). You can get a copy of the Stipulation by writing to appropriate Class Counsel, as set forth in "Further Information," above, by visiting [***www.*_____*.com***], or by contacting the Claims Administrator at:

Nortel I Securities Litigation Settlement
c/o The Garden City Group, Inc., Claims Administrator
P.O. Box 0000
City, ST 00000-0000
1-800- _____-_____ toll free
[www._____.***com***]

where you will find answers to common questions about the Settlement, a Proof of Claim form, plus other information to help you determine whether you are a Class Member and whether you are eligible for a payment.

25. How do I get more information?

For even more detailed information concerning the matters involved in this Nortel I Action, reference is made to the pleadings, to the Stipulation and Settlement Agreements, to the Orders entered by the respective Courts and to the other papers filed in the Nortel I Actions, which may be inspected, during regular business hours, as follows:

In the U.S. Action: at the Office of the Clerk, United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, New York, NY.

In the Ontario National Action: at the Civil Court Office, Ontario Superior Court of Justice, 393 University Avenue, 10th Floor, Toronto, Ontario.

In the Quebec Action: at the Office of the Special Clerk, Superior Court of Quebec, 1 Notre-Dame East, Montreal, Quebec.

In the British Columbia Action at the Supreme Court of British Columbia, 800 Smithe Street, Vancouver, British Columbia.

PLAN OF ALLOCATION OF SETTLEMENT PROCEEDS AMONG CLASS MEMBERS

The $438,667,428 total Cash Settlement Amount and the interest earned thereon, and the 314,333,875 Settlement Shares of Nortel common stock shall be the Gross Settlement Fund. The Gross Settlement Fund, less all taxes, approved costs, fees and expenses (the "Net Settlement Fund") shall be distributed to members of the Class who submit acceptable Proofs of Claim ("Authorized Claimants").

The Claims Administrator shall determine each Authorized Claimant' s pro rata share of the cash and Settlement Shares in the Net Settlement Fund based upon each Authorized Claimant' s "Recognized Claim." The Recognized Claim formula is not intended to be an estimate of the amount of what a Class Member might have been able to recover after a trial; nor is it an estimate of the amount that will be paid to Authorized Claimants pursuant to the settlement. The Recognized Claim formula is the basis upon which the Net Settlement Fund will be proportionately allocated to the Authorized Claimants.

The proposed Plan of Allocation generally measures the amount of loss that a Class Member can claim under the Settlement for the purpose of making pro-rata allocations of the cash and Settlement Shares in the Net Settlement Fund to Class Members who submit acceptable Proofs of Claim. The following proposed Plan of Allocation reflects plaintiffs' allegations that the price of Nortel common stock was inflated artificially during the Class Period due to misrepresentations regarding Nortel' s revenue and earnings. On October 24, 2000 after the market close, Nortel issued a press release announcing financial results for the third-quarter of 2000 and that for 2001, it anticipated growth in revenues and earnings per share from operations

in the 30% to 35% range. On February 15, after the market closed, Nortel lowered its guidance for the year 2001, indicating, in contrast to prior reports, that revenues would grow 15% and earnings would grow 10%, and that it would reduce its workforce. The reaction in the marketplace was swift. Nortel' s stock price dropped from its $29.75 closing price on the New York Stock Exchange on February 15, 2001 to trade as low as $19.00 per share on February 16, 2001. Lead Plaintiff estimated that approximately $8.18 per share or 27.5%[2] of the $29.75 closing price on February 15, 2001 represented the artificial inflation caused by the Defendants' alleged misrepresentations. (Note: Nortel' s common stock price did not bounce back in the 90 day period following the end of the Class Period, so no reduction of the claimed damages is required under the (United States) Private Securities Litigation Reform Act.)

"Recognized Claims" will be calculated for purposes of the Settlement as follows:

To the extent a claimant had a gain from his, her or its overall transactions in Nortel common stock and/or Nortel put and call options during the Class Period, the value of the Recognized Claim will be zero. Such claimants will in any event be bound by the Settlement. You may wish to consider this when deciding to opt out.

Common Stock Purchases:

(a) For shares of Nortel common stock purchased during the period October 24, 2000 through February 15, 2001, inclusive, and

(1) Sold at a loss on or before the close of trading on February 15, 2001, an Authorized Claimant' s "Recognized Claim" shall mean 2.75% (10%[3] of 27.5%) of the difference between the purchase price paid (including commissions, etc.) (the "PPP") minus the sales proceeds received (net of commissions, etc.) (the "SPR");

(2) Held after the close of trading on February 15, 2001 an Authorized Claimant' s "Recognized Claim" shall mean 27.5% of the purchase price paid (including commissions, etc.) to purchase the shares.

Call Option Purchases:

(i) No claim will be recognized for any Nortel call options purchased during the Class Period that were not owned as of the close of trading on February 15, 2001.

(ii) For Nortel call options purchased during the Class Period and owned as of the close of trading on February 15, 2001, an Authorized Claimant' s "Recognized Claim"

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2 Nortel' s price actual decline was approximately 33% but eliminating the day' s general market decline, 27.5% is attributed by Lead Plaintiff to the removal of the alleged artificial inflation.

3 Class members who sold Nortel Common Stock at a loss prior to the close of trading on February 15, 2001 would face a potential defense that their loss was not related to the alleged misrepresentation because the same alleged misrepresentations affected both their purchase and sale. The discount to 10% reflects this greater difficulty such Class Members would face.

shall be ***the lesser of*****: (a)** 50%[4] of the difference, if a loss, between (x) the amount paid for the call options during the Class Period (including brokerage commissions and transaction charges)(the "PPP") and (y) the sum for which said call options were subsequently sold at a loss (after brokerage commissions and transaction charges)(or $0.00 if the call option expired while still owned by the Authorized Claimant) (the "SPR"); ***or*** **(b)** $4.09 per share covered by such call option contracts (50% of the $8.18 maximum per share claim for this loss).

(iii) No loss shall be recognized based on a sale or writing of any call option that was subsequently repurchased.

(iv) Shares of Nortel acquired during the Class Period through the exercise of a call option shall be treated as a purchase on the date of exercise for the exercise price plus the cost of the call option, and any Recognized Claim arising from such transaction shall be computed as provided for other purchases of common stock.

Put Option Sales:

(i) No claim will be recognized for any Nortel put options sold (written) during the Class Period that were not the obligation of the claimant as of the close of trading on February 15, 2001.

(ii) For Nortel put options sold (written) during the Class Period, which were the obligation of the Authorized Claimant at the close of trading on February 15, 2001, an Authorized Claimant' s "Recognized Claim" shall be ***the lesser of***: (a) the difference, if a loss, between (x) the amount received for writing the put options during the Class Period (net of brokerage commissions and transaction charges) (the "SPR") and (y) the sum for which said put options were re-purchased at a loss[5] after the close of trading on February 15, 2001 (including brokerage commissions and transaction charges) (the "PPP"); ***or*** (b) $8.09 per share covered by such put option contracts.

(iii) For Nortel put options written during the Class Period that were "put" to the Authorized Claimant (i.e. exercised), the Authorized Claimant' s "Recognized Claim" shall be calculated as a purchase of common stock as shown above, and as if the sale of the put option were instead a purchase of Nortel common stock on the date of the sale of the put option, and the "purchase price paid" shall be the strike price less the proceeds received on the sale of the put option.

(iv) No loss shall be Recognized based on a sale of any put option that was previously purchased.

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4 This discount reflects the fact that a purchase of a call option includes the payment of a time premium.

5 For Nortel put options sold (written) during the Class Period that expired unexercised, an Authorized Claimant' s "Recognized Claim" shall be $0.00.

The total recovery payable to Authorized Claimants from transactions in call or put options shall not exceed five percent (5%) of the Net Settlement Fund.

In the event a Class Member has more than one purchase or sale of Nortel common stock and/or Nortel common stock options, all purchases and sales shall be matched on a First In First Out ("FIFO") basis, Class Period sales will be matched first against any Nortel shares and/or options held at the beginning of the Class Period, and then against purchases in chronological order, beginning with the earliest purchase made during the Class Period. Purchases and sales of Nortel common stock and options shall be deemed to have occurred on the "contract" or "trade" date as opposed to the "settlement" or "payment" date. The receipt or grant by gift, devise or operation of law of Nortel common stock and/or options during the Class Period shall not be deemed a purchase or sale of these Nortel securities for the calculation of an Authorized Claimant' s Recognized Claim nor shall it be deemed an assignment of any claim relating to the purchase of such Nortel securities unless specifically provided in the instrument of gift or assignment.

Each Authorized Claimant shall be allocated *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim as compared to the total Recognized Claims of all Authorized Claimants. Each Authorized Claimant shall be paid an amount determined by multiplying the total cash or Settlement Shares, respectively, in the Net Settlement Fund, by a fraction the numerator of which shall be his, her or its "Recognized Claim" and the denominator of which shall be the Total Recognized Claims of all Authorized Claimants. This computation weighs each Class Member' s claim against every other Class Member' s claim. Each Authorized Claimant will receive *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim.

The amount of a Class Member' s Recognized Claim as computed above is not intended to be an estimate of what a Class Member might have been able to recover at trial, and it is not an estimate of the amount that will be paid pursuant to this Settlement. Instead, this computation is only a method to weight Class Members' claims against one another. Each Authorized Claimant will receive *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim.

To the extent a Claimant had a gain from his, her or its overall transactions in Nortel common stock and/or Nortel put and call options during the Class Period, the value of the Recognized Claim will be zero. Such claimants will in any event be bound by the Settlement. To the extent that a Claimant suffered an overall loss on his, her or its overall transactions in Nortel common stock and/or options during the Class Period, but that loss was less than the Recognized Claim calculated above, then the Recognized Claim shall be limited to the amount of the actual loss.

For purposes of determining whether a Claimant had a gain from his, her or its overall transactions in Nortel common stock during the Class Period or suffered a loss, the Claims Administrator shall: (i) total the amount the Claimant paid for all Nortel common stock and Nortel options purchased during the Class Period, and the cost or amount paid to repurchase or close after the Class Period any Nortel put options written by the Claimant during the Class Period that were open obligations of the Claimant at the end of the Class Period (the "Total Purchase Amount"); (ii) match any sales of Nortel common stock or options during the Class Period first against the Claimant' s opening position in the stock (the proceeds of those sales will

not be considered for purposes of calculating gains or losses); (iii) total the amount received for sales of the remaining shares of Nortel common stock and any options sold during the Class Period (the "Sales Proceeds"); and (iv) ascribe a $19.00 per share holding value for the number of shares of Nortel common stock purchased during the Class Period and still held at the end of the Class Period and add the value at the end of Class Period of any call options still held by the Claimant at the end of the Class Period ("Holding Value"). The difference between (x) the Total Purchase Amount ((i) above) and (y) the sum of the Sales Proceeds ((iii) above) and the Holding Value ((iv) above) will be deemed a Claimant' s gain or loss on his, her or its overall transactions in Nortel common stock during the Class Period.

Class Members who do not submit acceptable Proofs of Claim will not share in the settlement proceeds. Class Members who do not either submit a request for exclusion or submit an acceptable Proof of Claim will nevertheless be bound by the Settlement and the Judgment of the applicable Court dismissing the applicable Action.

Distributions will be made to Authorized Claimants after all claims have been processed and after the Courts have finally approved the Settlement. If any funds remain in the Net Settlement Fund by reason of un-cashed distributions or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distributions, any balance remaining in the Net Settlement Fund one (1) year after the initial distribution of such funds shall be re-distributed to Class Members who have cashed their initial distributions and who would receive at least $10.00 from such re-distribution, after payment of any unpaid costs or fees incurred in administering the Net Settlement Fund for such re-distribution. If after six months after such re-distribution any funds shall remain in the Net Settlement Fund, then such balance shall be contributed proportionally to United States and Canadian non-sectarian, not-for-profit organizations designated by plaintiffs' counsel (and in the case of any relevant settlement shares, by transfer of such shares to such organization) after notice to the Courts and subject to the direction, if any, by the Courts.

Plaintiffs, Defendants, their respective counsel, and all other Released Parties shall have no responsibility for or liability whatsoever for the investment or distribution of the Settlement Fund, the Net Settlement Fund, the Plan of Allocation or the determination, administration, calculation, or payment of any Proof of Claim or non-performance of the Claims Administrator, the payment or withholding of taxes owed by the Settlement Fund, or any losses incurred in connection therewith.

Any payment required to be made to the *Fonds d' aide aux recours collectifs* of Quebec shall be paid by the Claims Administrator from the funds allocable to such members of the Quebec Class.

SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES

If you purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive for the beneficial interest of a person or organization other than yourself, the United States District Court has directed that, WITHIN SEVEN (7) DAYS OF YOUR RECEIPT OF THIS NOTICE, you either (a) provide to the Claims Administrator the

name and last known address of each person or organization for whom or which you purchased or sold such stock and/or options during such time period or (b) request additional copies of this Notice and the Proof of Claim form, which will be provided to you free of charge, and within seven (7) days mail the Notice and Proof of Claim form directly to the beneficial owners of such stock and/or options. If you choose to follow alternative procedure (b), the Court has directed that, upon such mailing, you send a statement to the Claims Administrator confirming that the mailing was made as directed. You are entitled to reimbursement from the Gross Settlement Fund of your reasonable expenses actually incurred in connection with the foregoing, including reimbursement of postage expense and the cost of ascertaining the names and addresses of beneficial owners. Those expenses will be paid upon request and submission of appropriate supporting documentation. All communications concerning the foregoing should be addressed to the Claims Administrator:

Nortel I Securities Litigation Settlement
c/o The Garden City Group, Inc., Claims Administrator
P.O. Box _____
_____,____ _____
(800)_____ - _____

Dated: _____, 2006

By Order of the Courts

APPENDIX "A"

NORTEL: CORPORATE GOVERNANCE PROVISIONS

Corporate Governance Enhancements

A. The following are the corporate governance enhancements that Nortel Networks Corporation ("Nortel") has agreed to implement:

1) Nortel will amend its Statement of Governance Guidelines (the "Governance Statement") to explicitly provide that the non-executive Chair (the "Chair") of Nortel' s Board of Directors (the "Board") shall have adequate support staff to carry out the Chair' s responsibilities.

2) Nortel will amend its Governance Statement and the mandates of the Board and the Board committees to explicitly provide for in camera or executive sessions at every Board and Board committee meeting, whether such meetings are conducted in-person or telephonically.

3) The Board will adopt a formal policy in 2006 to provide guidance to directors on the number of outside public boards on which a director may serve. The Board may take into account various factors in making its determination, including number of meetings and work plan of additional boards, committee memberships, industry and geographic location.

4) Nortel will amend the fourth page, first non-indented paragraph, first sentence of the current mandate of Nortel' s Compensation and Human Resources Committee (formerly the Joint Leadership Resources Committee, the "CHRC") to read:

> Subject as hereinafter provided, the committee shall have sole authority over the engagement of compensation consultants, including over the terms and conditions of such engagements.

5) Nortel will disclose in its annual proxy circular and proxy statement the names of comparator companies used for purpose of pay setting and performance comparisons.

6) The CHRC will include the results of comparator companies in determining its compensation practices and philosophy in consultation with the independent compensation consultants to the CHRC.

7) The CHRC intends to establish its compensation structures and policies in line with best practices. The CHRC will consult with its independent compensation consultants regularly to review the current state of affairs on best practices in the various areas of executive and other employee compensation, including with respect to the relative balance between annual and long-term compensation.

8) The CHRC will not utilize pro forma or adjusted financial metrics to assess performance and pay incentives except in extraordinary circumstances, and in consultation with the independent compensation consultants to the CHRC and Nortel' s Audit Committee.

9) The CHRC will disclose in Nortel' s annual proxy circular and proxy statement pay for performance measures and the time period(s) used to assess management' s performance, except that confidential or competitive information will not be disclosed.

10) The CHRC will require that all executives' employment agreements include a clawback provision that entitles the company to take back compensation, or declare compensation not owed, in the case of fraud.

11) Nortel will amend the mandate of the Board to formalize the Board' s current practice of electing the Chair on an annual basis.

12) Nortel will require that all committees of the Board must meet at least once a year.

13) Any material deviation from Nortel' s Governance Statement will be disclosed in the Report on Governance in the annual proxy circular and proxy statement.

B. The following are either current practices of Nortel or practices that Nortel was in the process of adopting at the time that negotiations with Lead Plaintiffs as to corporate governance enhancements began, and which Lead Plaintiffs have demanded be memorialized as part of this Settlement, and which Nortel has either implemented or has agreed to implement:

1) Commencing with 2006, Nortel will prepare a forward agenda for the Board, as well as each committee of the Board, at the beginning of each fiscal year. Each forward agenda will identify the decisions and actions to be presented to the Board or committee for the ensuing year as prescribed by the mandate of the Board or of the applicable committee.

2) Nortel currently conducts an annual assessment of the Board, its committees, individual directors and the Chair and reports those results to the Board. Nortel will describe this review process in its annual proxy circular and proxy statement.

3) Nortel' s Nominating and Governance Committee (formerly the Committee on Directors, the "Committee") will adopt, each year, general procedures which the Committee will follow for the purpose of identifying Board candidates. These procedures will be sufficiently flexible to permit the Committee to respond to current circumstances as well as to the requirements of the Canada Business Corporations Act, the stock exchanges and applicable securities laws regarding the election and appointment of directors. These procedures will be adopted for candidate identification and the appointment of new directors to the Board.

4) Nortel is in the process of amending the Committee' s mandate to explicitly identify that the Committee is responsible for director succession planning.

5) Nortel is in the process of formalizing and expanding its director orientation and education program.

6) The CHRC generally will not grant enhanced pension arrangements except in extraordinary circumstances and in consultation with its independent compensation consultants.

7) The CHRC agrees with the policy of not layering incentive plans on top of other incentive plans by reason of an unlikely payout under another existing plan.

C. Lead Plaintiffs are invited to address the chairman of Nortel' s Board and the Committee no later than four months after the Effective Date with respect to certain additional governance proposals, who will in turn discuss those proposals with the Board. The Board will then consider those proposals in good faith and act accordingly.

EXHIBIT A-2

PROOF OF CLAIM AND RELEASE

This Proof of Claim and Release relates to the following actions (the "Nortel I Actions"):

In Re Nortel Networks Corp. Securities Litigation, Consolidated Civil Action No.: 2001-CV-1855 (RMB) in the United States District Court for the Southern District of New York;

Frohlinger v. Nortel Networks Corporation et al, Court File No.: 02-CL-4605 in the Ontario Superior Court of Justice;

Association de Protection des Épargnants et Investisseurs du Québec v. Corporation Nortel Networks, No.: 500-06-000126-017 in the Superior Court of Quebec; and

Jeffery et al. v. Nortel Networks Corporation et al., Court File No.: S015159 in the Supreme Court of British Columbia.

DEADLINE FOR SUBMISSION: _____, 2006.

IF YOU PURCHASED NORTEL NETWORKS CORPORATION ("NORTEL") COMMON STOCK OR CALL OPTIONS ON NORTEL COMMON STOCK OR WROTE (SOLD) PUT OPTIONS ON NORTEL COMMON STOCK ("NORTEL SECURITIES") DURING THE PERIOD BETWEEN OCTOBER 24, 2000 THROUGH FEBRUARY 15, 2001, INCLUSIVE ("CLASS PERIOD"), YOU MAY BE A "CLASS MEMBER" ENTITLED TO SHARE IN THE PROCEEDS OF A SETTLEMENT.

NOTE: If you **also** purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive] then **you should have also received another Notice and you should also submit a separate Proof of Claim for those securities on the [COLOR] Proof of Claim form relating to a separate class action covering that time period (copies of that [COLOR] form are available from [Claims Administrator]. This [ANOTHER COLOR] Proof of Claim should be submitted with respect to only your purchases during the** October 24, 2000 through February 15, 2001, inclusive,] time period.

Excluded from the Class are Norte!, Clarence Chandran, Frank Dunn and John A. Roth (the defendants"), members of any of the individual defendants' immediate families, any entity in which any defendant has a controlling interest or is a parent or subsidiary of or is controlled by the company, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the defendants

IF YOU ARE A CLASS MEMBER, YOU MUST COMPLETE AND SUBMIT THIS FORM IN ORDER TO BE ELIGIBLE FOR ANY SETTLEMENT BENEFITS.

YOU MUST COMPLETE AND SIGN THIS PROOF OF CLAIM AND MAIL IT BY FIRST CLASS MAIL, POSTMARKED NO LATER THAN _____, 2006 TO THE FOLLOWING ADDRESS:

In re Nortel I Securities Litigation
c/o [Claims Administrator]
Claims Administrator
Post Office Box _____
_____, __ _____

YOUR FAILURE TO SUBMIT YOUR CLAIM BY _____, 2006 WILL SUBJECT YOUR CLAIM TO REJECTION AND PRECLUDE YOUR RECEIVING ANY MONEY IN CONNECTION WITH THE SETTLEMENT OF THIS LITIGATION. DO NOT MAIL OR DELIVER YOUR CLAIM TO THE COURTS OR TO ANY OF THE PARTIES OR THEIR COUNSEL AS ANY SUCH CLAIM WILL BE DEEMED NOT TO HAVE BEEN SUBMITTED. SUBMIT YOUR CLAIM ONLY TO THE CLAIMS ADMINISTRATOR.

CLAIMANT' S STATEMENT

1. I purchased Nortel Networks Corporation ("Nortel") common stock and/or call options on Nortel common stock and/or wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive. (Do not submit this Proof of Claim if you did not purchase Nortel common stock or call options or write (sell) put options on Nortel common stock during this period.)

2. By submitting this Proof of Claim, I state that I believe in good faith that I am a Class Member as defined above and in the Notice of Certifications in Canada and Proposed Settlements of Class Actions, Motions for Attorneys' Fees and Settlement Fairness Hearings (the "Notice"), or am acting for such person; that I am not a defendant in any of the Actions or anyone excluded from the Class; that I have read and understand the Notice; that I believe that I am entitled to receive a share of the Net Settlement Fund as described in the Notice; that I elect to participate in the proposed Settlement described in the Notice; and that I have not filed a request for exclusion. (If you are acting in a representative capacity on behalf of a Class Member (e.g., as an executor, administrator, trustee, or other representative), you must submit evidence of your current authority to act on behalf of that Class Member. Such evidence would include, for example, letters testamentary, letters of administration, or a copy of the trust documents.)

3. I consent to the jurisdiction of the Courts with respect to all questions concerning the validity of this Proof of Claim. I understand and agree that my claim may be subject to investigation and discovery under the applicable rules of civil procedure, provided that such investigation and discovery shall be limited to my status as a Class Member and the validity and amount of my claim. No discovery shall be allowed on the merits of the Actions or the Settlement in connection with processing of the Proofs of Claim.

4. I have set forth where requested below all relevant information with respect to each of my purchases and sales of Nortel common stock and/or call options and/or put options during the periods indicated, I agree to furnish additional information (including transactions in other Nortel securities) to the Claims Administrator, as required by it, to support this claim and my entitlement to a distribution if requested to do so. I understand that my failure to comply with this provision may result in a delay of my distribution, or the rejection of my claim.

5. I have enclosed photocopies of the stockbroker' s confirmation slips, stockbroker' s statements, or other documents evidencing each purchase, sale or retention of Nortel common stock

options listed below in support of my claim. (IF ANY SUCH DOCUMENTS ARE NOT IN YOUR POSSESSION, PLEASE OBTAIN A COPY OR EQUIVALENT DOCUMENTS FROM YOUR BROKER BECAUSE THESE DOCUMENTS ARE NECESSARY TO PROVE AND PROCESS YOUR CLAIM.)

6. I understand that the information contained in this Proof of Claim is subject to such verification as the Claims Administrator may request or as the Courts may direct, and I agree to cooperate in any such verification. (The information requested herein is designed to provide the minimum amount of information necessary to process most simple claims. The Claims Administrator may request additional information as required to efficiently and reliably calculate your Recognized Claim and any applicable withholding taxes. In some cases the Claims Administrator may condition acceptance of the claim based upon the production of additional information, including, where applicable, information concerning transactions in any derivatives of the subject securities such as options.)

7. Upon the occurrence of the Effective Date (as described in the Notice), my signature hereto will constitute a full and complete release, remise and discharge by me and my heirs, executors, administrators, predecessors, successors, and assigns (or, if I am submitting this Proof of Claim on behalf of a corporation, a partnership, estate or one or more other persons, by it, him, her or them, and by its, his, her or their heirs, executors, administrators, predecessors, successors, and assigns) of each of the "Released Parties" of all "Settled Claims," including "Unknown Claims", as these terms are defined in the Notice.

8. NOTICE REGARDING ELECTRONIC FILES: Certain claimants with large numbers of transactions may request, or may be requested, to submit information regarding their transactions in electronic files. All Claimants MUST submit a manually signed paper Proof of Claim form listing all their transactions whether or not they also submit electronic copies. If you wish to file your claim electronically, you must contact the Claims Administrator at 1-(800) ___ - ___or visit their website at www.___.com to obtain the required file layout. No electronic files will be considered to have been properly submitted unless the Claims Administrator issues to the Claimant a written acknowledgment of receipt and acceptance of electronically submitted data.

9. Statement of Claim

Name(s) of Beneficial Owner(s):

_____
Name

_____
Joint Owner' s Name (if any)

Residence Address of Beneficial Owner(s):

_____
Street No.

_____ _____ _____
City State / Province Zip Code / Postal Code

Mailing Address of Beneficial Owner(s) (if different);

_____
Street No.

_____ _____ _____
City State / Province Zip Code / Postal Code

( ) _____ ( ) _____
Telephone No. (Day) Telephone No. (Night)

Check one:

___ Individual ___ Corporation
___ Joint Owners ___ IRA/RRSP
___ Estate ___ Other ___ (specify)

Citizenship: USA

___ USA ___ Canadian ___ Other

Place of residence at the time you purchased Norte! common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock:

_____ _____
State / Province Country

If the Place of residence indicated above is Quebec, and if you are a legal person established for a private interest, a partnership or an association, indicate whether, at any time during the I2-month period preceding February 18, 2005, more than 50 employees were under your direction or control. /___/

FOR NORTEL COMMON STOCK:

10. At the close of business on October 23, 2000, I owned ___ shares of Nortel common stock (If none, write "0" or "Zero") (must be documented if other than zero).

11. I made the following purchases of Nortel common stock during the period October 24, 2000 through February 15, 2001, inclusive. (Persons who received Nortel common stock during this period other than by purchase are not eligible to submit claims for those transactions.):

Date(s) of Purchase (List Chronologically) (Month/Day/Year)	Number of Shares of Common Stock Purchased	Purchase Price Per Share of Common Stock	Aggregate Cost (including commissions, taxes, and fees)
___/___/___	_____	$ _____	$ _____
___/___/___	_____	$ _____	$ _____
___/___/___	_____	$ _____	$ _____
___/___/___	_____	$ _____	$ _____
___/___/___	_____	$ _____	$ _____

12. 1 made the following sales of Nortel common stock during the period October 24, 2000 through February 15, 2001, inclusive:

Date(s) of Sale (List Chronologically) (Month/Day/Year)	Number of Shares of Common Stock Sold	Sale Price Per Share of Common Stock	Amount Received (net of commissions, taxes, and fees)
___/___/___	_____	$ _____	$ _____
___/___/___	_____	$ _____	$ _____
___/___/___	_____	$ _____	$ _____
___/___/___	_____	$ _____	$ _____
___/___/___	_____	$ _____	$ _____

13. At the close of trading on February 15, 2001, I owned ___ shares of Nortel common stock (If none, write "0" or "Zero") (must be documented if other than zero).

FOR CALL OPTIONS ON NORTEL COMMON STOCK:

14. At the close of business on October 23, 2000, I owned the following call options on Nortel common stock (must be documented if other than zero.):

Date Purchased (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Aggregate Cost
___/___/___	_____	$ _____	___/___/___	
___/___/___	_____	$ _____	___/___/___	
___/___/___	_____	$ _____	___/___/___	
___/___/___	_____	$ _____	___/___/___	

15. I made the following purchases of call options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive:

Date of Purchase (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Price Paid Per Share	Aggregate Cost (including commissions, taxes, and fees)
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____

16. 1 made the following sales of call options on Nortel common stock during the period October 24, 2000 through February 15, 2001, inclusive:

Date of Sale (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Sale Price Per Share	Amount Received (net of commissions, taxes, and fees)
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____

17. I exercised the following call options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive:

Date of Exercise (Month/Day/Year)	Strike Price	Expiration Date (Month/Day/Year)	Number of Contracts
___/___/___	$ _____	___/___/___	_____
___/___/___	$ _____	___/___/___	_____
___/___/___	$ _____	___/___/___	_____
___/___/___	$ _____	___/___/___	_____

18. At the close of business on February 15, 2001, I still owned the following call options on Nortel common stock:

Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)
_____	$ _____	___/___/___
_____	$ _____	___/___/___
_____	$ _____	___/___/___
_____	$ _____	___/___/___

FOR PUT OPTIONS ON NORTEL COMMON STOCK:

19. At the close of business on October 23, 2000, I was obligated on the following put options on Nortel common stock:

Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)
_____	$ _____	___/___/___
_____	$ _____	___/___/___
_____	$ _____	___/___/___
_____	$ _____	___/___/___

20. I wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive, as follows:

Date of Writing (Sale) (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Sale Price Per Share	Amount Received (net of commissions, taxes, and fees)
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____

21. I made the following re-purchases of put options on Nortel common stock which I wrote (sold) during the period between October 24, 2000 through February 15, 2001, inclusive (include all re-purchases no matter what the date):

Date of Purchase (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Price Paid Per Share	Aggregate Cost (including commissions, taxes, and fees)
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____
___/___/___	_____	$ _____	___/___/___	$ _____	$ _____

22. The following put options on Nortel common stock which I wrote (sold) during the period between October 24, 2000 through February 15, 2001, inclusive were exercised by the holders thereof and assigned to me(include all re-purchases no matter what the date):

Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Date of Exercise (Month/Day/Year)
_____	$ _____	___/___/___	___/___/___
_____	$ _____	___/___/___	___/___/___
_____	$ _____	___/___/___	___/___/___
_____	$ _____	___/___/___	___/___/___

23. At the close of business on February 15, 2001, I was obligated on the following put options on Nortel common stock:

Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)
_____	$ _____	___/___/___
_____	$ _____	___/___/___
_____	$ _____	___/___/___
_____	$ _____	___/___/___

IF YOU NEED ADDITIONAL SPACE TO LIST YOUR TRANSACTIONS PHOTOCOPY THIS PAGE

24. Request for Taxpayer Identification Number:

For tax purposes, enter the appropriate tax identification number below for the Beneficial Owner(s). For most United States individuals, this is your Social Security Number. For most United States entities other than individuals, this is your Taxpayer Identification Number. For most Canadian individuals, this is your Social Insurance Number. For most Canadian entities other than individuals, this is your Business Number. If you fail to provide this information, your claim may be rejected.

Individuals:

Social Security Number	or	Social Insurance Number

Estates, Trusts, Corporations, etc.:

Taxpayer Identification Number	Business Number/Trust Number

Certification

U.S. Persons and Entities,: /___/ I (We) certify that 1 am (we are) NOT subject to backup withholding under the provisions of Section 3406 (a)(1)(c) of the Internal Revenue Code because: (a) I am (We are) exempt from backup withholding, or (b) I (We) have not been notified by the I.R.S. that I am (we are) subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the I.R.S. has notified me (us) that I am (we are) no longer subject to backup withholding.

NOTE: If you have been notified by the I.R.S. that you are subject to backup withholding, please strike out the language that you are not subject to backup withholding in the certification above.

Canadian or Other Non-U.S. Persons and Entities: /___/ The beneficial owner is not a U.S. person and the income to which this form relates, if any, is not effectively connected with the conduct of a trade or business in the United States.

UNDER THE PENALTIES OF PERJURY, I (WE) CERTIFY THAT ALL OF THE INFORMATION I (WE) PROVIDED ON THIS PROOF OF CLAIM FORM IS TRUE, CORRECT AND COMPLETE.

Signature of Claimant (If this claim is being made on behalf of Joint Claimants, then each must sign)

_____

(Signature)

_____

(Signature)

(Title/Capacity of person(s) signing, e.g. beneficial purchaser(s), president, executor, administrator, trustee, etc.)

Date: _____

THIS PROOF OF CLAIM MUST BE SUBMITTED NO LATER THAN _____, 2006, AND MUST BE MAILED TO:

In re Nortel I Securities Litigation
c/o [Claims Administrator]
Claims Administrator
Post Office Box ___
_____, __ _____

A Proof of Claim received by the Claims Administrator shall be deemed to have been submitted when posted, if mailed by _____, 2006, and if a postmark is indicated on the envelope and it is mailed first class, and addressed in accordance with the above instructions. In all other cases, a Proof of Claim shall be deemed to have been submitted when actually received by the Claims Administrator.

You should be aware that it will take a significant amount of time to process fully all of the Proofs of Claim and to administer the Settlement. This work will be completed as promptly as time permits, given the need to investigate and tabulate each Proof of Claim. Please notify the Claims Administrator of any change of address.

REMINDER CHECKLIST

1. ☐ Please be sure to sign this Proof of Claim on page [___]. If this Proof of Claim is submitted on behalf of joint claimants, then both claimants must sign.

2. ☐ Please remember to attach supporting documents. Do NOT send any stock certificates. Keep copies of everything you submit.

3. ☐ Do NOT use highlighter on the Proof of Claim or any supporting documents.

4. ☐ If you move after submitting this Proof of Claim, please notify the Claims Administrator of the change in your address.

NOTE: RECEIPT ACKNOWLEDGMENT NEEDED

The Claims Administrator will send a written confirmation of its receipt of your Proof of Claim. Do not assume your claim is submitted until you receive written confirmation of its receipt. Your claim is not deemed fully filed until the Claims Administrator sends you written confirmation of its receipt of your Proof of Claim. If you do not receive an acknowledgement postcard within thirty (30) days of your mailing the Proof of Claim, then please call the Claims Administrator toll free at _____.

EXHIBIT A-3

NORTEL I SECURITIES LITIGATION

SUMMARY NOTICE OF PROPOSED SETTLEMENT, CERTIFICATION OF CANADIAN ACTIONS, MOTIONS FOR LEGAL FEES AND SETTLEMENT FAIRNESS HEARINGS

THIS NOTICE MAY AFFECT YOUR RIGHTS, PLEASE READ CAREFULLY

TO ALL PERSONS OR ENTITIES WHO PURCHASED NORTEL NETWORKS CORPORATION ("NORTEL") COMMON STOCK OR CALL OPTIONS ON NORTEL COMMON STOCK OR WROTE (SOLD) PUT OPTIONS ON NORTEL COMMON STOCK (COLLECTIVELY "NORTEL SECURITIES") DURING THE PERIOD OCTOBER 24, 2000 THROUGH FEBRUARY 15, 2001 (THE "CLASS PERIOD"), INCLUSIVE, INCLUDING, BUT NOT LIMITED TO, THOSE PERSONS WHO TRADED IN NORTEL SECURITIES ON THE NEW YORK STOCK EXCHANGE AND/OR THE TORONTO STOCK EXCHANGE.

NOTICE OF PROPOSED SETTLEMENT

This Summary Notice is directed to all members of the Classes described below, and is given pursuant to Rule 23 of the United States Federal Rules of Civil Procedure and various Canadian provincial class proceedings legislation. The proposed Settlement is more fully described in the "Notice of Certification in Canada and Proposed Settlements of Class Actions, Motions for Legal Fees and Settlement Fairness Hearings (Nortel I Notice)" (the "Long-Form Notice") which is currently being mailed to known Class Members. If you have not yet received a copy of the Long-Form Notice you should request one from the Claims Administrator identified In the section below entitled "For More Information."

Briefly, this Summary Notice advises you, among other things, of a proposed settlement in the following class actions in the United States and Canada:

In Re Nortel Networks Corp. Securities Litigation, Consolidated Civil Action No.: 2001-CV-1855 (RMB) in the United States District Court for the Southern District of New York ("New York Court") ("U.S. Action");

Frohlinger v. Nortel Networks Corporation et at, Court File No.: 02-CL−4605 In the Ontario Superior Court of Justice ("Ontario Court") ("Ontario National Action");

Association de Protection des Éspargnants et Investisseurs du Québec v. Corporation Nortel Networks, No.: 500-06-000126-017 in the Superior Court of Quebec ("Quebec Court") ("Quebec Action"); and

Jeffery et al. v. Nortel Networks Corporation, et al., Court File No.: S015159 in the Supreme Court of British Columbia ("B.C. Court") ("B.C. Action").

The Ontario National Action, the Quebec Action and the B.C. Action are collectively referred to as the "Canadian Nortel I Actions". The U.S. Action and the Canadian Nortel I Actions are collectively referred to as the "Nortel I Actions".

TERMS OF PROPOSED SETTLEMENT

The Settlement will provide total proceeds consisting of approximately $438,667,428 in cash, plus 314,333,875 shares of Nortel common stock for the benefit of members of the Classes. In addition, Nortel will adopt certain corporate governance enhancements. The Settlement resolves lawsuits over whether

Nortel I Securities Litigation Exclusions
c/o The Garden City Group, Inc. Claims Administrator
P.O. Box 0000
City, ST 00000-0000

If you previously requested exclusion from the Global Class and are not a member of any of the Classes certified in the Canadian Actions, then you are already excluded from the Settlement and may not receive any money or shares of Nortel common stock from the Settlement.

If you are a member of any of the Classes certified in the Canadian Actions and you previously requested exclusion from the Global Class in the U.S. Action, then you may now either (I) submit a Proof of Claim form and be included in the Settlement, or (ii) opt-out of the Classes certified In the Canadian Actions and be excluded from the Settlement. If you do nothing you will be Included in the Classes certified in the Canadian Actions and be bound by the Settlement, but you will not receive any money or shares of Nortel common stock.

Requests for exclusion, to be effective, must be post-marked no later than [September 15, 2006]. If you exclude yourself from the Classes, you will not be bound by any judgment or other orders made in the Nortel I Actions, will not be able to participate in the Settlement, and will retain any rights you may have as against the defendants. Do rd request exclusion if you wish to participate In the Settlement.

NOTICE OF SETTLEMENT FAIRNESS/APPROVAL HEARINGS

As noted, in order for the Settlement to become effective, it must be approved by the New York Court, the Ontario Court, the Quebec Court and the B.C. Court, each of which must be satisfied that the Settlement is fair, reasonable, adequate and in the best interests of Class Members. Dates for the Settlement Fairness/Approval Hearings have been scheduled with the respective courts as follows:

in the U.S. Action: at ___:___.m. on day, ___, 2006, at the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, New York, NY.

in the Ontario National Action: at ___:___.m. on day, ___, 2006, at the Ontario Superior Court of Justice, 381 University Avenue, Toronto, Ontario.

Nortel misled investors about its historic and future earnings during the Class Period. The Settlement is contingent on approval by the Courts In the Nortel I Actions and in

in the Quebec Action: at ___:___.m. on day, ___, 2006, at the Superior Court of Quebec, District of Montreal, 1 Notre-Dame East, Montreal, Quebec.

In the British Columbia Action at ___:___.m. on day, ___, 2006, at the Supreme Court of British Columbia, 800

certain related actions against Nortel in the United States and Canada (the 'Nortel II Actions") for which there is a separate notice. The Settlement Is further subject to certain regulatory approvals. The Settlement constitutes a full and final resolution of claims and causes of action raised by members of the Classes in the Nortel I Actions and encompassed In the Settlement.

NOTICE OF CERTIFICATION OF CLASSES

The U.S. Action was certified in 2004 to proceed as a class action on behalf of persons and entities, wherever located, who bought Nortel common stock or call options on Nortel common stock or who wrote (sold) put options on Nortel common stock during the period October 24, 2000 through February 15, 2001, inclusive, and suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange (the "U.S. Global Class").

The Canadian Nortel I Actions have now been certified for settlement purposes on behalf of Canadian Class Members. The Ontario Court, the Quebec Court and the B.C. Court have certified the following classes for settlement purposes:

Ontario National Class: All persons or entities, except members of the Quebec Class or British Columbia Class, who, while residing in Canada at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between October 24, 2000 through February 15, 2001, inclusive.

Quebec Class: All persons, who, while residing in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between October 24, 2000 through February 15, 2001, inclusive.

British Columbia Class: All persons or entities, who, while residing in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between October 24. 2000 through February 15, 2001, inclusive.

As described in detail in the Long-Form Notice, certain persons and entities are excluded from the above Classes.

OPTING-OUT OF THE CLASS

If you are a member of any of the Classes you will be bound by the terms of the Settlement, if approved, and you will not be able to bring or maintain any other claim or legal proceedings against the defendants In connection with the allegations raised In the Nortel I Actions, unless you exclude yourself ("opt-out"). If you are a member of any of the Classes and wish to exclude yourself from the Settlement, you must make a request for exclusion in writing. In order to be valid, each such request for exclusion must set forth the name and address of the person or entity requesting exclusion, must expressly state that such person or entity requests exclusion from the Classes, and must be signed by such person or entity. Requests for exclusion must be mailed to:

Smithe Street, Vancouver, British Columbia.

If you are a member of any of the Classes and you do not oppose the Settlement, you need not appear at the Settlement Fairness/ Approval Hearings to indicate your approval. If you are a member of any of the Classes and you wish to comment on or make an objection to the terms of the Settlement, you should send your name, address and brief reasons for the objection to the Claims Administrator as set forth in the Long-Form Notice prior to [September 15, 2006[You will be entitled to appear at the Settlement Fairness/Approval Hearings and be heard if you wish to do so.

At the Settlement Fairness Hearing, plaintiffs' counsel will apply to the respective Courts for awards of legal fees and for reimbursement of expenses Incurred in prosecuting the Nortel I Actions.

PROOF OF CLAIM REQUIRED TO SHARE IN SETTLEMENT PROCEEDS

In order to receive any of the money or shares of Nortel common stock being made available through the Settlement you must submit a Proof of Claim form by [November 30, 20061. Proof of Claim forms may be obtained by contacting the Clams Administrator at the addresses shown below.

FOR MORE INFORMATION

If you have not yet received the full printed Long-Form Notice and Proof of Claim form, you may obtain copies of these documents by contacting the Claims Administrator. As there will be no further notices sent directly to members of the Classes, you should keep yourself apprised of all developments and updates by regularly contacting the Claims Administrator or by visiting:

Nortel I Securities Litigation Settlement
c/o The Garden City Group, Inc., Claims Administrator
P.O. Box 0000, City, ST 00000-0000
1-800-___toll free
[www. .com]

If there is a discrepancy between this Summary Notice and the Long-Form Notice, the latter prevails.

PLAINTIFFS' COUNSEL

For the U.S. Action: Lead Plaintiffs Counsel: George A. Bauer III, Esq., Milberg Weiss Bershad & Schulman LLP, One Pennsylvania Plaza, New York, New York 10119-0165; or Murray Gold, Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, Ontario M5H 3R3.

For the Ontario National Action: Ontario National Class Counsel: Joel P. Rochon, Rochon Genova LLP, 121 Richmond Street West, Suite 900, Toronto, Ontario M5H 2K1.

For the Quebec Action: Quebec Class Counsel: Daniel Belleau, Belleau Lapointe, S.A., 306 Place D' Youville, B-10, Montreal, Quebec H2Y 2B6.

For the British Columbia Action: British Columbia Class Counsel: David Klein, Klein Lyons, 1100-1333 West Broadway, Vancouver, British Columbia V6H 4C1.

This Summary Notice has been approved by the United States District Court for the Southern District of New York, the Ontario Superior Court of Justice, the Superior Court of Quebec and the Supreme Court of British Columbia

EXHIBIT A-4

LOGO
The Garden City Group, Inc.

Nortel I and II Canadian Actions

Proposed Legal Notification Campaign

Prepared by:
Jeanne C. Finegan, APR June 19, 2006

Table of Contents

Introduction

Since 1984, The Garden City Group, Inc. (GCG) has established a history of providing successful class action settlement services. Originally a practice unit of KPMG Peat Marwick, the company is now a wholly owned subsidiary of Crawford & Company, the world' s largest risk adjusting firm *(NYSE symbols CRD.A/CRD/B)*.

For over 20 years, GCG has specialized in the design and implementation of Class Action notification campaigns. GCG' s team has designed and implemented large domestic and international campaigns as well as highly focused local campaigns for class action proceedings. GCG has also handled the notice and administration of some of the largest securities settlements of all time. Our recent experience includes the $6.2 billion *WorldCom* case (where we have processed nearly one million claims); the $1.1 billion *Royal Ahold* case (which included mailing notice to class members in more than 100 countries); and the $1 billion *IPO* settlement where we mailed more than 17 million notices.

Jeanne C. Finegan, Senior Vice President, GCG

Jeanne Finegan, APR, has more than 20 years of communications and advertising experience. She is a nationally recognized expert in legal notice programs, both in Federal and State courts. Finegan has lectured and published extensively on various aspects of legal noticing. Her articles have been published in The National Law Journal, The ABA' s Class Action Litigation Reporter, and The International Risk Management Institute, among others. She has provided expert testimony before Congress on issues of notice and served the Consumer Product Safety Commission (CPSC) as an expert to determine ways in which the Commission can increase the effectiveness of its product recall campaigns. She is accredited (APR) in Public Relations by the Universal Accreditation Board, a program administered by the Public Relations Society of America.

Finegan has designed and implemented many of the nation' s largest and high profile legal notice communication programs. Her multi-national experience includes some of the most high-profile restructuring communications programs involving international Notice. She has designed legal notices for a wide range of class actions and consumer matters that include product liability, construction defect, antitrust, medical/pharmaceutical, human rights, civil rights, telecommunication, media, environment, securities, banking, insurance, and bankruptcies. Attached hereto as Exhibit l is Finegan' s comprehensive curriculum vitae.

1. Legal Notice Communication Methodology[1]

Within the context of "Expert Opinion," two U.S. Supreme Court decisions, Daubert v. Merrell Dow Pharmaceuticals, 509 U.S. 579 (1993), and Kumho Tire Co. v. Carmichael, 526 U.S. 137 (1999), suggest that when we design a media plan for submission to a court for approval, as experts, we must: *1) Apply a technique that can be tested by peers; and 2) Use industry accepted methodology*. Therefore, the following legal notice proposal was developed using a scientific

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1 The Canadian plan was calculated based on data provided by the Print Measurement Bureau (PMB) and The Newspaper Audience Databank (NADbank).

method accepted within the advertising industry for modeling target class members by their demography and media consumption habits.

Most importantly, in formulating a program for delivering "Appropriate Notice," we have been mindful of the natural justice and fair process concerns expressed by the Canadian courts, as well as of the factors listed in the Ontario Class Proceedings Act, S.O. 1992, c. 6, s. 17, the applicable British Columbia statute (R.S.B.C. 1996, c. 50, s. 19), and the relevant provisions in the Quebec Code of Civil Procedure.

The purpose of this document is to fully describe our methodology for modeling a target audience and then appropriately selecting the methods of communication that will best reach them, including direct mail, published notice, third-party outreach, and media relations. It is our intention to provide to the Courts of Canada a well-formulated notice plan that defines the target audience by its demography and media consumption habits, as well as the percentage reached by this campaign and how frequently the target audience will have the opportunity to see the message as calculated by accepted advertising industry practice.

Our analysis is designed to be rigorous and well calculated based on available research and scientific analysis. However, as with all social sciences, it should be noted that there is no one absolute formula for reaching these conclusions. The calculation of human behavior and media consumption is not an exact science, but instead it is a combination of science and judgment based upon knowledge and experience with advertising industry methodologies that are traditionally utilized in designing legal notice programs.

This proposal is submitted in connection with the Norte] I and Nortel II United States and Canadian class actions.[2] This proposal addresses only the Canadian outreach effort. Adhering to the highest communication and outreach standards, this Notice Program is based on a scientific methodology that is used throughout the advertising industry and one which has been embraced by Courts in the United States and in Canada. Therefore, GCG has designed a Notice Program to "reach"[3] the greatest practicable number of class members.

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2 The Nortel I Settlement includes three actions covered by Canadian Law: (i) *Law, et al., v. Norte/ Networks Corp., et al.*, Ontario Superior Court of Justice Commercial List, Court file No. 02-CL-4605 (the "Ontario Action"); (ii) *Jeffrey, et al., v. Norte, Networks Corp., et al.*, Supreme Court of British Columbia, No. S015159 Vancouver Registry (the "British Columbia Action"); and (iii) *Association de Protection des Epargnants et Investissuers du Quebec v. Norte/ Networks Corp.*, Superior Court, District of Montreal No.: 500-06-000 126-017 (the "Quebec Proceeding").

The Norte/ 11 Settlement includes two actions governed by Canadian law: (i) *Gallardi v. Norte! Networks Corp.*, Ontario Superior Court of Justice Commercial List, Court No. 05-CV-285606CP (the "Ontario Action"); *Skarstedt v. Nortel Networks Corp.*, Superior Court, District of Montreal, No. 500-06-000277-059 (the "Quebec Proceeding").

These five actions/proceedings are collectively referred to herein as the Canadian Actions.

3 Reach is the number or percentage of different persons exposed to a specific media schedule.

2. Multi-National Legal Notice Experience

GCG' s ground breaking multi-national efforts are commonly cited by Legal Notice Experts. Our benchmark international cases (see In re: *Vancouver Women's Health Collective Society v. A.H. Robins Co.*, 820 F.2d 1359 (4th Cir. 1987), and In re: *Lindsey v. Dow Corning Corp., Civil Action No. CV 94-P-11558-S*), have been cited as international legal notice standards. As demonstrated below, GCG is particularly qualified to develop and implement a legal notice program that will effectively and efficiently reach the targeted potential class members in a manner that is similar in scope and form to other multi-national court-approved notice programs.

In re Vancouver Women's Health Collective Soc'y v. A. H. Robins Co., 820 F.2d 1359, 1364 (4th Cir. 1987). *In an appellate opinion, the Honorable Robert R. Merhige, Jr., Senior District Judge found that [**15] "the notification program used by Robins was, under the circumstances, reasonable. The evidence indicates that every news outlet in the world received the information. Similarly, there is fairly strong evidence that the news was broadly disseminated worldwide. A battery of world health and welfare organizations also disseminated the information. It appears to this court that the extensive notification program was a success."*

Lindsey. et al., v. Dow Corning Corp., et al., Civil Action No. CV 94-P-11558-S. *In an order approving the Notice of Settlement, United States District Judge Samuel J Pointer, Jr., stated, "Indeed, the efforts to provide information to such persons must be viewed as among the most extensive and complete ever undertaken." The court finds and concludes that, under these circumstances, the notice program, with all its components, satisfies constitutional requirements and, in the words of* Rule 23, constitutes "the best notice practicable under the circumstances, including individual notice to all members who can be identified through reasonable effort.

Other samples of our international experience are included as Exhibit 2.

3. Media Rationale Overview

GCG has designed a Notice Program that is consistent with other United States Court-ordered multi-national notice programs and with the various Canadian class action statutes. In formulating a program for delivering "Appropriate Notice" that meets the concepts of natural justice and fair process we are guided by sound principles of communication. We are utilizing nationally syndicated Canadian media research bureaus to provide both demographic and media consumption habits of the Canadian population, These data are used by Canadian advertising agencies as the basis to select media most appropriate to reach specific target audiences.

We are confident that class members will be provided with multiple opportunities to see this Notice through: 1) Mailed notice to all reasonably identifiable class members who purchased Nortel stock during the class period; 2) Publication in Canada in appropriate magazines and newspapers; 3) Internet banner ads; 4) Media relations; 5) a Toll-free information line; and 6) a Web site.

4. Direct Mail

In securities class actions in the United States, the long-accepted practice for disseminating notice to the class members is through direct mailings. However, there is never one defined

mailing list of class members. Rather, we need to cull together a complete list from various sources. The first step is to mail notice to all record holders of the subject company' s publicly traded securities during the Class Period. This list is provided to us by the company' s transfer agent. These record holders, however, are usually just the tip of the iceberg in terms of the potential class members that we reach. The overwhelming majority of class members are found through the network of brokerage firms, banks and other third-party nominees whose clients and/or customers may have purchased a company' s stock during the appropriate Settlement Class Period. These firms hold stock in street name on behalf of their customers and, through the years, have developed specialized departments to respond to requests for class member lists.

During its 20-year history of performing class action settlement administration, GCG has built and maintained a proprietary database of the largest brokerage firms, banks, institutions and other nominees (the "Broker Database"). This Broker Database is continually monitored and updated as brokerage firms change addresses, go out of business and/or come into existence. Currently, GCG has more than 2,500 such firms in its U.S. database and thousands more in its international database.

After notice is mailed, these brokerage firms respond in one of two ways. First, many firms provide us with lists of clients believed to be class members (i.e., they purchased the requisite security during the applicable time period). These lists come in the forms of electronic feeds of data as well as hard-copy labels and other formats. GCG, in turn, updates its database records for the appropriate case to reflect these names and addresses and then mails the notice (and usually a claim form) to these individuals and entities. Other nominee firms, ostensibly due to privacy concerns, do not provide names of their clients, but rather, request copies of the notice packet in bulk so that they can forward notice directly to their clients.

In large cases such as this, GCG conducts follow-up telephone campaigns with these nominee firms to make certain that they have received the notice and that they have complied with the requirements described therein. To help ensure compliance, we will also ask these nominee firms to submit to us a compliance certificate, which basically confirms that they searched their records and provided us with names and addresses of potential class members and/or that they actually mailed the notice packets that they requested. We expect to employ this methodology of direct mail notice in both the United States and Canada in connection with the Nortel I and Nortel II Settlements. GCG' s database already contains names and addresses of 185 of the largest Canadian nominees to be targeted for all securities mailings. This list was updated through extensive research only a few months ago in connection with another large international settlement. GCG has experience receiving names and requests from these firms in Canada and we are, therefore, confident that we can rely on their participation in this case. We have also worked in the past with Dun & Bradstreet to purchase additional lists of banks and brokerage firms in countries outside the United States. We will work with them to determine whether they have names and addresses that genuinely supplement our Canadian nominee mailings.

However, because we cannot reasonably expect the Canadian brokerage firms to be as comfortable with this process as are the firms in the U.S. – because plainly there is not yet the volume of securities class actions settlements in Canada that exists in the U.S. – we are buttressing this direct mail program with a very comprehensive notice publication program,

which is described below. We expect that this media program will be at least comparable, if not more fulsome than the program developed for the U.S.

5. Publication

The Canadian Notice plan is calculated based on data provided by The Print Measurement Bureau (PMB). PMB is Canada' s leading nationally syndicated media research bureau, which provides data on publication readership, product usage and demographic information. PMB is widely accepted by the top advertising agencies. Additionally, the Canadian plan incorporates data provided by The Newspaper Audience Databank (NADbank). NADbank studies newspapers on a market-by-market basis.

Based on my over 20 years of experience in the field of advertising, public relations and marketing communications, I believe that this syndicated research provides a valid basis for determining the multimedia characteristics of specific target audiences.

The closest definition that PMB provides on which to base our research for the Nortel Legal Notice Program is "*People who own common or preferred stock.*" Based on this definition, we have conducted an extensive analysis of the demographics of the target audience in Canada for their tendencies to read various magazines and newspapers.

Based on this data, the media program alone is estimated to reach 84.22 percent of "Canadians who own common or preferred stock," with an average frequency of 3.82 times.[4]

Demographic highlights of our target audience are summarized in a snap shot below.

Demographic Profile - Canada

Target: People who own common or preferred stock

Men	62.38 %
Women	37.62 %
Age 35-64	67.15 %
Own Home	87.84 %
Employed	66.00 %
Employed Full Time	62.99
HHI $75K-$150K	57.10 %
HHI $50K+	79.72 %
English Canada	76.64 %
French Canada	23.36 %

4 Detailed explanations of reach and frequency are found on the Definitions page.

Married	77.44 %

Ontario	40.29 %
Quebec	25.90 %
British Columbia	13.59 %
Albert	10.37 %
Manitoba/Saskatchewan	5.69 %

Source: PMB 2006 Two-Year Readership Database

6. Notice Program Strategy

Demographic profiles have been used for many years by advertising agencies as the standard practice for defining media objectives and selecting media. Demographics provide insight regarding a target audience' s age, ethnicity, preferred language, income, population size and geographical distribution. Additionally, data provided by PMB goes beyond basic demographics by analyzing lifestyle characteristics, including media usage habits. These lifestyle characteristics and demographic descriptions are segmented into distinct cluster types. Each cluster uniquely describes demographics, attitudes, and consumer behavior. For the purposes of targeting a legal notice program, these clusters describe media usage patterns, and are used to define the extent of a medium' s usage within a given cluster.

Based on this research, we have developed an approach utilizing broad-reaching publications and more vertically targeted business publications that we know the target has a likelihood of reading. Moreover, our research indicates over 22 percent of the Canadian population speak French. The chart below identifies the percentage of French and/or English spoken by province.

Canadian Province	English	French	Total Population	% Speak French
Newfoundland and Labrador	500,065	2,180	508,075	0.43 %
Prince Edward Island	125,215	5,670	133,385	4.25 %
Nova Scotia	834,315	34,155	897,570	3.81 %
New Brunswick	465,720	236,775	719,710	32.90%
Quebec	572,085	5,788,655	7,125,580	81.24%
Ontario	8,079,500	493,630	11,285,550	4.37 %
Manitoba	836,980	44,775	1,103,700	4.06 %
Saskatchewan	625,865	18,035	963,150	1.87 %
Alberta	2,405,935	59,735	2,941,150	2.03 %
British Colombia	2,865,300	56,100	3,868,875	1.45 %
Yukon Territory	24,840	890	28,525	3.12 %
Northwest Territories	28,985	965	37,105	2.60 %
Nunavut	7,370	400	26,665	1.50 %
Total	**17,572,175**	**6,741,965**	**29,639,040**	**22.75%**

Total French Speakers	6,741,965
% French Speakers of Total Pop.	22.75 %

* Includes people who speak English & French and other languages

Source: Census 2001

Therefore, we have included a number of French general circulation magazines and newspapers geared toward the French speaking population in Canada, most particularly in Quebec.

Additionally, we analyzed total circulation and Readers Per Copy "RPC" of a publication in order to understand its total readership. While this number does not factor out duplication, it is illustrative as to the extent of the program. Also this number only includes these consumer publications, and does not include the multiple other methods of communications we are using, i.e. direct mail, and media relations efforts. These additional methods of communication will only further increase readership.

PMB research indicates that the magazines detailed below are the most appropriate to reach the largest percentage of this target. The magazines used in this Legal Notice program are published in either French and/or English and deliver the broadest appropriate reach of "people who own common or preferred stock."

Canadian Magazines Selected for this Legal Notice Program

Canadian Business	BI-Weekly	E	92,000	11.8	1,085,600	1/2 Page	1
Maclean' s	Weekly	E	822,000	7.1	5,836,200	1/2 Page	2
L' actualite	Monthly	F	191,000	6.0	1,146,000	Full Page	1
Report on Business Magazine (Globe & Mail)	Monthly	E	288,000	5.0	1,440,000	1/2 Parke	1
Financial Post Business Magazine	Monthly	E	221,000	5.9	1,303,900	1/2 Page	1
Time Canada	Weekly	E	239,000	11.5	2,748,500	1/2 Page	1
MoneySense	7X/Year	E	115,000	8.2	943,000	1/2 Page	1
Reader' s Digest (English Edition)	Monthly	E	1,990,000	7.2	14,328,000	Full Page	2
Reader' s Digest (French Edition)	Monthly	F	250,000	5.2	1,300,000	Full Page	1
Canadian Living	Monthly	E	538,000	8.2	4,411,600	1/2 Page	1
Coup de Pouce	Monthly	F	230,000	6.2	1,426,000	Full Page	1
Canadian Geographic	Monthly	E	230,000	17.8	4,094.000	1/2 Page	1
Chatelaine (English Edition)	Monthly	E	697,000	6.4	4,460,800	1/2 Page	1
Chatelaine (French Edition)	Monthly	F	209,000	6.2	1,295,800	Full Page	1
The National Post (Wed)	Daily	E	248,000	3.4	843,200	1/4 Page	1
The National Post (Sat)	Daily	E	268,000	2.6	696,800	1/4 Page	1
The Globe and Mall (Daily − Report on Business Section)	Daily	E	322,000	4.1	1,320,200	1/4 Page	1
The Globe and Mall (Sat − Report on Business Section)	Daily	E	402,000	3.2	1,286,400	1/4 Page	1

* Unit Size will depend on final size of Summary Notices.

The Notice program includes publication in the two largest national newspapers in Canada, The National Post, and The Globe and Mail. To increase the overall reach and effectiveness of this plan, GCG has added newspapers in the top 10 Census markets. The Legal Notice will appear on both the highest day of circulation as well as the day business editorial is the most highly concentrated.

Toronto Star	Toronto (Ontario)	E	2	114 Page	Sat.	673,663	Wed.	462,985
Toronto Sun (Mon-Fri),	Toronto (Ontario)	E	2	1/2 Page Tab	Sun.	337,000	Mon.	194,000
Le Journal de Montreal (Mon-Fri)	Montreal (Quebec)	F	2	Full Page Tab,	Sat.	321,000	Wed.	268,000
Montreal Gazette	Montreal (Quebec)	E	2	1/4 Page	Sat.	153,016	Wed.	136,818
La Presse	Montreal (Quebec)	F	1	1/2 Page	Sat.	277,935	N/A	N/A
The Vancouver Sun	Vancouver (British Columbia)	E	2	1/4 Page	Sat.	230,526	Wed.	173,145
Ottawa Citizen	Ottawa- Hull (Ontario-Quebec)	E	2	1/4 Page	Sat.	156,657	Wed.	127,792
La Droll	Ottawa-Hull (Ontario-Quebec)	F	1	112 Page	Sat.	39,889	N/A	N/A
Calgary Herald	Calgary (Alberta)	E	2	1/4 Page	Fri.	140,728	Wed.	116,671
Edmonton Journal	Edmonton (Alberta)	E	2	1/4 Pale	Fri.	143,312	Wed.	125,827
Le Journal de Quebec	Quebec (Quebec)	F	2	Full Page Tab	Sat.	122,863	Wed.	98,165
Quebec City Le Solon	Quebec (Quebec)	F	1	1/2 Page	Sat.	112,660	N/A	N/A
The Hamilton Spectator	Hamilton (Ontario)	E	2	1/4 Page	Sat.	122,572	Wed.	105,643
Winnipeg Free Press	Winnipeg (Manitoba)	E	2	1/4 Page	Sat.	164,106	Wed.	119,392
The London Free Press	London (Ontario)	E	2	1/4 Page	Sat.	112,182	Mon.	92,476
Subtotal:			27			3,108,109		2,020,914

* Unit Size will depend on final size of Summary Notices.

Additionally, we are further enhancing the Notice Program by adding the largest general circulation newspaper in each of the Canadian provinces.

Moncton Times & Transcript	New Brunswick	E	1	1/4 Page	Saturday	45,500
L' Acadie Nouvelle	Moncton (New Brunswick)	F	1	1/2 Page	Saturday	20,436
The Guardian	Prince Edward Island	E	1	1/4 Page	Saturday	20,746
The Halifax Chronicle Herald	Nova Scotia	E	1	1/4 Page	Saturday	111,501
The Star Phoenix	Saskatchewan	E	1	1/4 Page	Friday	60,499
Nunavut News/North	Nunavet	E	1	1/2 Pale Tab	Monday	6,213
Yukon News	Yukon	E	1	1/2 Page Tab	Friday	7,850
NWT/News North	Northwest Territories	E	1	1/2 Page Tab	Monday	9,672
The Telegram	Newfoundland	E	1	1/4 Page	Saturday	55,031
Subtotal:			**9**			**337,448**

* Unit Size will depend on final size of Summary Notices.

All unit sizes and pricing presented in this proposal are subject to change depending on the final text of the Summary Notices.

7. Publication Analysis

We have previously identified one way to measure media, which is reach. Reach refers to those people who actually are exposed to a message. Two other media measures of a publication are

coverage (i.e., potential exposure through a given publication) and index against a target. Coverage is the percentage of the target audience that reads a magazine. For example, as shown in the chart below, Canadian Business reaches an estimated 10.78 percent of "people who own common or preferred stock." Canadian Living reaches an estimated 19.01 percent of this target. It should be noted that the overall average estimated reach is calculated through a random duplication formula widely accepted in the advertising industry.

Index is an indicator of the tendency of a consumer to read a certain publication. An index of 100 is a mean. An index greater than 100 indicates a percentage greater than the average tendency to read a publication. For example an index of 110 would mean that the target is 10 percent more likely than the average person to read a publication.

The chart below lists each publication by its reach of those who own common or preferred stock. The magazines selected for this Class either reach a significant percentage of the target audience or they index well. As the chart below indicates, the selected Canadian publications are well read by those who own common or preferred stock. For example, Canadian Business is 176 percent more likely to be read by our target audience of "those who own common or preferred stock" than the average Canadian.

% Coverage and Composition Index

Target: Own Common or Preferred Stock

Canadian Business	10.78%	(276)
Maclean' s	14.19%	(135)
L' aduafte	6.69 %	(161)
Report on Business Magazine (Globe & Mail)	14.52%	(279)
Financial Post Business Magazine	13.39%	(285)
Time Canada	12.05%	(121)
MoneySense	7.63 %	(224)
Readers Digest (English Edition)	26.10%	(100)
Reader' s Digest (French Edition)	6.02 %	(129)
Canadian Living	19.01%	(120)
Coup de Pouce	5.76 %	(112)
Canadian Geographic	14.79%	(100)
Chatelaine (English Edition)	17.87%	(111)
Chatelaine (French Edition)	5.62 %	(121)
The National Post (Wed)	9.37 %	(309)
The National Post (Sat)	8.23 %	(322)
The Globe and Mall Daily − Report on Business Section	12.25%	(256)
The Globe and Mail (Sat − Report on Business Section)	11.65%	(254)

Source: PMB 2006 Two-Year Readership Database

We have selected broad reaching magazines for this Legal Notice program. Additionally, we are using ad sizes that will be noticed by potential class members, while maintaining cost efficiency. In that regard, we are recommending certain ad unit sizes. For example, we are recommending

half-page ads or larger in the magazines, depending on final length of Summary Notice(s) . According to Magazine Dimensions 2005, "Studies show that a typical reader of a monthly publication looks at or reads the issue about three times over a 12-week interval. So the vast majority of the audience can be assumed to have scanned all ads (via page openings) *regardless* of ad size or color."

8. Frequency Rationale

Why do we need to expose the target audience to the Legal Notice more than once? Author Michael J. Naples, suggests an answer. He has found a relationship between frequency and message communication success. Among his conclusions: "The weight of evidence suggests strongly that an exposure frequency of at least two (2x) within a purchase cycle is an effective level." Effective Frequency: The Relationship Between Frequency and Advertising Effectiveness – Association of National Advertisers, New York, New York 1988.

The table below reviews correlation between various factors and recommended frequency in a notice program.

Factor	High Frequency	Moderate Frequency	Low Frequency
Complexity of Message	Complex	Less Complex	Simple
Level of Interest in Message	Low	Medium	High
Competitive Activity	Heavy	Moderate	Light
Predisposition of Audience	Negative	Neutral	Positive

Source – Guide to Media Research - American Association of Advertising Agencies (AAAA) Research 2001.

9. Prominent Ad Position, Formatting and "Plain Language"

The concept of "plain language" in Notice is one that has received much attention. Plain language is simply a more conversational form of communication. The same style is used when reporting the news. The concept, now integrated into Legal Notice practice, is one that has received note from various authorities. For additional information, please visit www.sc.gov/public/home.nsf; www.plainengligh.co.uk and www.plainlanguagenetwork.org.

The published Notice will be formatted in a manner consistent with these and other guidelines, including Federal Judiciary' s guidelines on easy to read, plain language notice.

As noted in a RAND Study, the Louisiana-Pacific Inner Seal Siding Notice (1995) was actually one of the first published plain language notices. It was co-written by Jeanne Finegan. The RAND study suggested that the plain language text from the L-P notice was more likely than other notices to attract the attention of class members.[5]

5 Deborah R. Hensler et al., CLASS ACTION DILEMAS, PURSUING PUBLIC GOALS FOR PRIVATE GAIN. RAND (2000).

Consistent with the Federal Judiciary' s guidelines, the black and white Notice will have a bold headline and will call attention, by way of bold type, to important details, such as class definitions, how individuals can obtain more information by way of mail, toll-free numbers or a web address, relevant dates and deadlines, and other salient points. We will make a best effort to request prominent positioning in the magazines, namely right hand page, as far forward as possible.

10. Internet Banner Advertising

Banner advertising is recognized as an effective method of increasing brand recall and product interest. It is also highly cost-efficient as a means of generating brand awareness. GCG will design a banner advertisement for placement on specific heavily trafficked areas on each of the Internet portals. These banners will be targeting finance executives within Investments & Securities.

We would place banner advertising on financial focused websites such as Canada, Sympatico MSN Finance Channel in English & French, Sympatico MSN – Hotmail targeted to financial executives in English & French, Yahoo, National Post Online, Globe & Mail – GlobeInvester.com, and AOL Money & Technology network targeting Canada. The precise sites will be chosen at the time of the media buy.

11. Media Relations

GCG will design a media relations campaign that includes distribution of a press release over PR Newswire including Canadian news wires. The press release will be broadly distributed to the media, as well as focused directly to the securities industry. The press release will alert the media of the details of the case, giving them the opportunity to report on the case and provide additional media exposure by way of news stories to their audiences.

12. Toll Free Information Line

Complementing the Notice Program will be GCG' s ancillary telephone support and website established especially for this case. The summary notice will direct class members to the toll-free telephone number and the website URL for additional information about the settlement.

GCG is able to offer automated information about different aspects of the settlement through our Interactive Voice Response (IVR) platform. We will provide (in both French and English) information about deadlines, class members' rights, background of the case, how to submit a claim, and other pertinent information. In addition to this automated platform we will use our call center facility to set up dedicated operators for this settlement. Our call center' s main operational site is in Sarasota, Florida. However, we have many other available locations from which we run cases. Here, we anticipate using our Montreal site, where we have the capacity to use more than 100 seats (far more than needed). All of the Representatives in this facility are bilingual (English and French Canadian) professional (most have earned a college degree), and have extensive customer service experience.

Regarding connectivity to our IVR platform, all of our domestic toll free numbers automatically include "Extended Call Coverage" (ECC) which provides connectivity from Canada and all of

the U.S. Territories without any additional set up. In addition, the transfer of a call from the IVR to a representative in Montreal will be seamless as the infrastructure is already in place. Our IVR has limitless capacity and can be customized to accommodate any foreign language requirement.

13. Web Site

We also intend to create a case-specific web site that provides answers to frequently asked questions as well as postings of all relevant settlement-related documents. Class members will be able to access and download copies of the notices and the claim forms and will have access to relevant Court orders. This web site may be accessed by anyone in Canada or the U.S. and will be available in English and French.

14. Conclusion

Based on our experience in planning and implementing class action Notice it is our judgment that this broad reaching Notice program is reasonably calculated, using appropriate tools and methodology accepted in the advertising industry, to effectively reach targeted class members in Canada.

15. Budget Overview

Below is a cost summary of the proposed Canadian Notice Program:

National Publications*	$	277,817.17
Local Newspapers − Highest Circ Day*	$	96,303.59
Local Newspapers − Best Business Day*	$	78,096.92
Local Newspapers − Additional*	$	12,817.74
Internet Banner Advertising	$	95,855.33
Media Outreach	$	1,985.00
Affidavits	$	6,600.00
Total	$	569,475.75*

To the extent we are asked to place separate ads for Nortel I and Nortel II, the cost will essentially double. Pricing above based on 2006 pricing and current exchange rate. Subject to change based on exchange rate at time of buy.

16. Publication Summary

Canadian Business

Provides news, opinion and community for business leaders, entrepreneurs and investors in Canada. Bi-Weekly.

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* * Final pricing will ultimately depend on the size of the final approved Summary Notice(s).

Maclean' s

Publishes the latest in health, education, personal finance, entertainment, personalities, politics and sports, plus thought-provoking columnists and special reports. Weekly.

L' actualite

Covers news and culture in Canada. Monthly.

Report On Business Magazine (Globe & Mail)

Considered the most comprehensive compilation of economic news in Canada. Standard Report on Business sections are typically fifteen to twenty pages and include the listings of major Canadian, US, and international stocks, bonds, and currencies. Monthly.

Financial Post Business Magazine

Consistently provides context, analysis and understanding to current trends, companies and issues that are shaping the economy and Canadians' lives. Topics include corporate strategies, profiles of top political and business leaders with articles aimed at the broader interests of its upscale audience. Monthly.

Time Canada

Provides analysis and viewpoints. Provides insight and big-picture perspective on the most important news of the day, at home and around the world. It covers the transformational issues affecting society − socially, politically, economically and culturally. Weekly.

MoneySense

Covers personal finance in Canada. Each issue contains insightful and informative columns and articles to help consumers make the most of their money. 7x a Year.

Reader' s Digest

(English Edition)

Puts the world in perspective through a fusion of timely original editorial and select excerpts of the best journalism in print. It informs, entertains and inspires people to take action at a time when mass media prominently shapes the culture. Monthly.

Reader' s Digest

(French Edition)

French edition of the publication. Monthly.

Canadian Living

Provides readers with smart solutions for everyday living. The place to turn to first for I-can-do-it recipes for midweek family suppers and elegant entertaining, up-to-the-minute health and wellness information, and practical parenting and family advice-plus inspiring fashion, beauty and home decor ideas that make real sense in busy lives. Daily.

Coup de Pouce

Committed to helping women and their families living in Quebec, it delivers a wealth of information and practical advice. Editorial covers food, health, beauty and fashion, parenting, travel and home. Monthly.

Canadian Geographic

Delivers unmatched coverage of issues related to Canada and its people, all brought to vivid life through stunning photography and unforgettable writing. Monthly.

Chatelaine

(English Edition)

Covers a variety of women' s interests, from fashion and relationships to health information, profiles of successful women and journalism on social and political issues relevant to women. Monthly.

Chatelaine

(French Edition)

French edition of the publication. Monthly.

The National Post

A major Canadian English language national newspaper based in Toronto. Daily.

The Globe and Mail

Often considered the newspaper of record in Canada, it is a major Canadian English language national newspaper based in Toronto. Daily.

17. Media Definitions

REACH – The number of different people (or homes) exposed to an advertisement one or more times. Reach is expressed as an estimated percentage of the defined target population that has an opportunity to see the ad.

FREQUENCY – The average number of exposures received by the people who were reached by the media schedule.

GROSS IMPRESSIONS - The sum of audiences for all vehicles (such as newspapers and/or magazines) on an advertising schedule.

READERS-PER-COPY (RPC) - The average number of readers-per-copy of a publication is computed by dividing the total number of different people who read or looked into an average issue of a magazine by the magazine' s total circulation. This number is based upon the assumption that readers will "pass along" their copy of a magazine for others to read as well.

18. Syndicated Research Definitions

PMB Print Measurement Bureau is Canada' s leading syndicated study for single-source data on print readership, non-print media exposure, product usage and lifestyles. Its reputation is based on over 30 years of accurate, in-depth measurement of Canadian consumer behavior.

PMB is a non-profit organization, representing the interests of Canadian publishers advertising agencies, advertisers and other companies.

The first national PMB study was conducted in 1973. Since then, it has grown to the point where it now uses an annual sample of 24,000 to measure the readership of over 120 publications and consumer usage of over 2,500 products and brands. The PMB 2006 study is based on 25,165 interviews conducted over 24 months (October 2003 − September 2005). **See www.pmb.ca/public/e/index.htm.*

INTERACTIVE MARKET SYSTEMS (IMS) − IMS is the leading international provider of information systems and solutions for the media industry. IMS provides media planning and analysis software for both industry and proprietary research. One function of IMS software is to run a reach and frequency report based on formula models such as IMS Modal and Metheringham. These formulas create a reach and frequency estimate.

NADbank − The NADbank 2005 study is the most comprehensive data source for market level data on newspaper readership, retail shopping and product category data in Canada.

Exhibit 1

JEANNE C. FINEGAN, APR

BIOGRAPHY

Jeanne Finegan, Senior Vice President of The Garden City Group, Inc., has more than 20 years of communications and advertising experience. She is a nationally recognized expert in class action, bankruptcy and mass tort notification campaigns. Finegan, is accredited (APR) in Public Relations by the Universal Accreditation Board, a program administered by the Public Relations Society of America.

She has provided expert testimony before Congress on issues of notice. Additionally, she has provided expert testimony in both State and Federal Courts regarding notification campaigns and conducted media audits of proposed notice programs for their adequacy under Fed R. Civ. P. 23(c)(2) and similar state class action statutes.

She has lectured, published and has been cited extensively on various aspects of legal noticing, product recall and crisis communications and has served the Consumer Product Safety Commission (CPSC) as an expert to determine ways in which the Commission can increase the effectiveness of its product recall campaigns.

Finegan has developed and implemented many of the nation' s largest and most high profile legal notice communication and advertising programs. In the course of her class action experience, Courts have recognized the merits of, and admitted expert testimony based on, her scientific evaluation of the effectiveness of notice plans. She has designed legal notices for a wide range of class actions and consumer matters that include product liability, construction defect, anti-trust, medical/pharmaceutical, human rights, civil rights, telecommunication, media, environment, securities, banking, insurance, mass tort, restructuring and product recall.

Her work includes:

In re: UAW v General Motors Corporation, Case No: 05-73991 Class Action, United States District Court Eastern District of Michigan Southern Division (2006).

In re: Wicon, Inc. v. Cardservlce International, Inc., BC 320215 Class Action Superior Court of the State of California for the County of Los Angeles (2004).

In re: Varacallo, et al. v. Massachusetts Mutual Life Insurance Company, et al., Civil Action No. 04-2702 (JLL), United States District Court for the District of New Jersey (2004).

> (Preliminary Approval Order at 9). ... the Court found that ... "all of the notices are written in simple terminology, are readily understandable by Class Members, and comply with the Federal Judicial Center' s illustrative class action notices."
>
> ***... By working with a nationally syndicated media research, firm, (Finegan' s firm] was able to define a target audience for the MassMutual Class Members, which provided a valid basis for determining the magazine and***

newspaper preferences of the Class Members. (Id at 5.2). ... The Court agrees with Class Counsel that this was more than adequate.

In re: John's Manville (Statutory Direct Action Settlement,, Common Law Direct Action and Hawaii Settlement) Index No 82-11656 (BRL) United States Bankruptcy Court Southern District of New York (2004). The nearly half-billion dollar settlement constituted three separate notification programs, which targeted all persons, who had asbestos claims whether asserted or unasserted, against the Travelers Indemnity Company.

In the Findings of Fact and Conclusions of a Clarifying Order Approving the Settlements, the Honorable Chief Judge Burton R. Lifland said:

"As demonstrated by Findings of Fact, the Statutory Direct Action Settlement notice program was reasonably calculated under all circumstances to apprise the affected individuals of the proceedings and actions taken involving their interests, Mullane v. Cent. Hanover Bank & Trust Co; 339 U.S. 306, 314 (1950), such program did apprise the overwhelming majority of potentially affected claimants and far exceeded the minimum notice required The Court concludes that mailing direct notice via U.S. Mail to law firms and directly to potentially affected claimants, as well as undertaking an extensive print media and Internet campaign met and exceeded the requirements of due process. The Court's conclusion in this regard is buttressed by the results over 26,000 phone calls, 20,000 requests for information 8,000 website visits and 4,000 users registered to download documents. The results simply speak for themselves."

In re: Wilson v. Massachusetts Mutual Life Insurance Company, Case No. D-101-CV 98-02814 (First Judicial District Court County of Santa Fe State of New Mexico 2002.) This was a nationwide notification program that included all persons in the United States who owned, or had owned, a life or disability insurance policy with Massachusetts Mutual Life Insurance Company and had paid additional charges when paying their premium on an installment bases. The class was estimated to exceed 1.6 million individuals.
(www.insuranceclassclaims.com/).

In granting preliminary approval to the settlement agreement, the Honorable Art Encinias commented:

"The Notice Plan was the best practicable and reasonably calculated, under the circumstances of the action. ...land) that the notice meets or exceeds all applicable requirements of law, including Rule 1-023(C)(2) and (3) and 1-023(E), NMRA 2001, and the requirements of federal and/or state constitutional due process and any other applicable law."

In re: Deke, et al. v. Cardservice International, Case No. BC 271679 Superior Court of the State of California for the County of Los Angeles. (2004)

In the Final Order dated March 1, 2004, The Honorable Charles W. McCoy commented:

"The Class Notice satisfied the requirements of California Rules of Court 1856 and 1859 and due process and constituted the best notice practicable under the circumstances. "

In re: Sager v. blamed Corp. and McGhan Medical Breast Implant Litigation, Case No. 01043771, Superior Court of the State of California County of Santa Barbara. (2004).

In the Final Judgment and Order, dated March 30, 2004, the Honorable Thomas P. Anderle stated:

"Notice provided was the best practicable under the circumstances."

In re: Florida Microsoft Antitrust Litigation Settlement. Index number 99-27340 CA 11, 11t Judicial District Court of Miami − Dade County, Florida. (2003) In the Final Order Approving the Fairness of the Settlement, The Honorable Henry H. Harnage said:

"The Class Notice ... was the best notice practicable under the circumstances and fully satisfies the requirements of due process, the Florida Rules of Civil Procedure, and any other applicable rules of the Court."

In re: Montana Microsoft Antitrust Litigation Settlement. No. DCV 2000 219, Montana First Judicial District Court – Lewis & Clark Co. (2003).

In re: South Dakota Microsoft Antitrust Litigation Settlement. Civ. No. 00-235, State of South Dakota county of Hughes in the circuit Court Sixth Judicial Circuit.

In re: Kansas Microsoft Antitrust Litigation Settlement. Case No. 99C 17089 Division No. 15 Consolidated Cases, District Court of Johnson County, Kansas Civil Court Department.

In the Final Order and Final Judgment, the Honorable Allen Slater stated:

"The Class Notice provided was the best notice practicable under the circumstances and fully complied in all respects with the requirements of due process and of the Kansas State. Annot. 00-22.3."

In re: North Carolina Microsoft Antitrust Litigation Settlement, No. 00-CvS-4073 (Wake) 00-CvS-1246 (Lincoln), State of North Carolina, Wake and Lincoln Counties in the General Court of Justice Superior Court Division North Carolina Business Court.

In the multiple state cases, Plaintiffs generally allege that Microsoft unlawfully used anticompetitive means to maintain a monopoly in markets for certain software, and that as a result, it overcharged consumers who licensed its MS-DOS, Windows, Word,

Excel and Office software. The multiple legal notice programs targeted both individual users and business users of this software. The scientifically designed notice programs took into consideration both media usage habits and demographic characteristics of the targeted class members.

In re: MCI Non-Subscriber RatePavers Litigation, MDL Docket No. 1275, (District Court for Southern District of Illinois 2001) . The advertising and media notice program was designed with the understanding that the litigation affects all persons or entities who were customers of record for telephone lines presubscribed to MCl/World Corn, and were charged the higher non-subscriber rates and surcharges for direct-dialed long distance calls placed on those lines. (www.rateclaims.com).

After a hearing to consider objections to the terms of the settlement, The Honorable David R. Herndon stated:

> ***"As further authorized by the Court, GMs. Finegan's company/ ... published the Court-approved summary form of notice in eight general-interest magazines distributed nationally; approximately 900 newspapers throughout the United States and a Puerto Rico newspaper. In addition, /Ms. Finegan 's company) caused the distribution of the Court-approved press release to over 2,500 news outlets throughout the United States... The manner in which notice was distributed was more than adequate..."***

In re: Sparks v. AT&T Corporation, Case No. 96-LM-983 (In the Third Judicial Circuit, Madison County, Illinois.) The litigation concerned all persons in the United States who leased certain AT&T telephones during the 1980' s. Finegan designed and implemented a nationwide media program designed to target all persons who may have leased telephones during this time period, a class that included a large percentage of the entire population of the United States.

In granting final approval to the settlement, the Court commented:

> ***"The Court further finds that the notice of the proposed settlement was sufficient and furnished Class Members with the information they needed to evaluate whether to participate in or opt out of the proposed settlement. The Court therefore concludes that the notice of the proposed settlement met all requirements required by law, including all Constitutional requirements."***

In re: Pigford v. Glickman and U.S. Department of Agriculture, Case No. CA No. 97-19788 (PLF), (District Court for the District of Columbia 1999). This was the largest civil rights case to settle in the United States in over 40 years. The highly publicized, nation-wide paid media program was designed to alert all present and past African-American farmers of the opportunity to recover monetary damages against the U.S. Department of Agriculture for alleged loan discrimination.

In his Opinion, the Honorable Paul L. Friedman commented on the notice program by saying:

"The parties also exerted extraordinary efforts to reach class members through a massive advertising campaign in general and African American targeted publications and television stations."

Judge Friedman continued:

"The Court concludes that class members have received more than adequate notice and have had sufficient opportunity to be heard on the fairness of the proposed Consent Decree."

In re: SmithKline Beecham Clinical Billing Litigation, Case No. CV. No. 97-L-1230 (Illinois Third Judicial District Madison County, 2001.) Finegan designed and developed a national media and Internet site notification program in connection with the settlement of a nationwide class action concerning billings for clinical laboratory testing services.

In re: MacGregor v. Schering-Plough Corp., Case No. EC248041 (Superior Court of the State of California in and for the County of Los Angeles 2001). This nationwide notification was designed to reach all persons who had purchased or used an aerosol inhaler manufactured by Schering-Plough. Because no mailing list was available, notice was accomplished entirely through the media program.

In re: Swiss Banks Holocaust Victim Asset Litigation, Case No. CV-96-4849, (Eastern District of New York 1999). Finegan managed the design and implementation of the Internet site on this historic case. The site was developed in 21 native languages. It is a highly secure data gathering tool and information hub, central to the global outreach program of Holocaust survivors. (www.swissbankclaims.com/).

In re: Louisiana-Pacific Inner-Seal Siding Litigation, Civil Action Nos. 879-JE, and 1453-JE U.S.D.C., (District of Oregon 1995 and 1999). Under the terms of the Settlement, three separate Notice programs were to be implemented at three-year intervals over a period of six years. In the first Notice campaign, Finegan implemented the print advertising and Internet components of the Notice program.

In approving the legal notice communication plan, the Honorable Robert E. Jones stated:

"The notice given to the members of the Class fully and accurately informed the Class members of all material elements of the settlement...(through a broad and extensive multi-media notice campaign."

In reference to the third-year Notice program for Louisiana Pacific, Special Master Hon. Judge Richard Unis, commented:

"In approving the third year notification plan for the Louisiana-Pacific Inner-SeaFM Siding litigation, the court referred to the notice as `...well formulated to conform to the definition set by the court as adequate and reasonable notice."

Indeed, I believe the record should also reflect the Court's appreciation to Ms. Finegan for all the work she's done, ensuring that noticing was done

correctly and professionally, while paying careful attention to overall costs. "Her understanding of various notice requirements under Fed R. Civ. P. 23, helped to insure that the notice given in this case was consistent with the highest standards of compliance with Rule 23(d)(2).

In re; Thomas A. Foster and Linda E. Foster v. ABTco Sidin 'Litigation, Case No. 95-151-M, (Circuit Court of Choctaw County, Alabama 2000). This litigation focused on past and present owners of structures sided with Abitibi-Price siding. The notice program that Finegan designed and implemented was national in scope.

In the Order and Judgment Finally approving settlement, Judge J. Lee McPhearson said:

"The Court finds that the Notice Program conducted by the Parties provided individual notice to all known Class Members and all Class Members who could be identified through reasonable efforts and constitutes the best notice practicable under the circumstances of this Action. This finding is based on the overwhelming evidence of the adequacy of the notice program ...The media campaign involved broad national notice through television and print media, regional and local newspapers, and the Internet (see id ¶59-11) The result: over 90 percent of Abitibi and ABTco owners are estimated to have been reached by the direct media and direct mail campaign."

In re: Exxon Valdez Oil Spill Litigation, Case No. A89-095-CV (HRH) (Consolidated) U.S. District Court for the District of Alaska (1997, 2002). Finegan designed and implemented two media campaigns to notify native Alaskan residents, trade workers, fisherman, and others impacted by the oil spill of the litigation and their rights under the settlement terms.

In re: Georgia-Pacific Toxic Explosion Litigation Case No. 98 CVCO5-3535, (Court of Common Pleas Franklin County, Ohio 2001). Finegan designed and implemented a regional notice program that included network affiliate television, radio and newspaper. The notice was designed to alert adults living near a Georgia-Pacific plant that they had been exposed to an air born toxic plume and their rights under the terms of the class action settlement.

In the Order and Judgement finally approving the settlement the Honorable Jennifer L. Bunner said:

"...Notice of the settlement to the Class was the best notice practicable under the circumstances, including individual notice to all members who can be identified through reasonable effort. The Court finds that such effort exceeded even reasonable effort fort and that the Notice complies wills the requirements of Civ. R. 23(C).

In re: Johns Manville Phenolic Foam Litigation Case No. CV 96-10069, (District Court for the District of Massachusetts 1999). The nationwide multi-media legal notice program was designed to reach all Persons who own any structure, including an industrial building, commercial building, school, condominium, apartment house,

home, garage or other type of structure located in the United States or its territories, in which Johns Manville PFRI was installed, in whole or in part, on top of a metal roof deck.

In re: James Hardie Roofing Litigation Case No. CV. No. 00-2-17945-65SEA (Superior Court of Washington in and for King County 2002). The nationwide legal notice program included advertising on television, in print and on the Internet. It was national in scope and designed to reach all persons who own any structure with JHBP roofing products.

In the Final Order and Judgement the Honorable Steven Scott stated:

> ***"The notice program required by the Preliminary Order has been fully carried out.... land was' extensive. The notice provided fully and accurately informed the Class Members of all material elements of the proposed Settlement and their opportunity to participate in or be excluded from it; was the best notice practicable under the circumstances; was valid, due and sufficient notice to all Class Members; and complied fully with Civ. R. 23, the United States Constitution, due process, and other applicable law."***

In re: First Alert Smoke Alarm Litigation, Case No. CV-98-C-1546-W (UWC), (District Court for the Northern District of Alabama Western Division 2000). Finegan designed and implemented a nationwide legal notice and public information program. The public information program is scheduled to run over a two-year period to inform those with smoke alarms of the performance characteristics between photoelectric and ionization detection. The media program includes network and cable television, magazine and specialty trade publications.

In the Findings and Order Preliminarily Certifying the Class, The Honorable C.W. Clemon wrote that the notice plan:

> ***"...Constitutes due, adequate and sufficient notice to all Class Members; and meets or exceeds all applicable requirements of the Federal Rules of Civil Procedure, the United States Constitution (including the Due Process Clause), the Alabama State Constitution, the Rules of the Court, and any other applicable law."***

In re: American Cyanamid, Civil Action CV-97-0581-BH-M United States District court for the Southern District of Alabama 2001. The media program targeted those Farmers who had purchased crop protection chemicals manufactured by American Cyanamid.

In the Final Order and Judgment, the Honorable Charles R. Butler Jr. wrote:

> ***"The Court finds that the form and method of notice used to notify the Temporary Settlement Class of the Settlement satisfied the requirements of Fed R. Civ. P. 23 and due process, constituted the best notice practicable under the circumstances, and constituted due and sufficient notice to all potential members of the Temporary Class Settlement."***

In re: Bristow v Fleetwood Enterprises Litigation Case No Civ 00-0082-S-EJL (District Court for the District of Idaho 2001). Finegan designed and implemented a legal notice campaign targeting present and former employees of Fleetwood Enterprises, Inc., or its subsidiaries who worked as hourly production workers at Fleetwood' s. housing, travel trailer, or motor home manufacturing plants. The comprehensive notice campaign included print, radio and television advertising.

In re: New Orleans Tank Car Leakage Fire Litigation, Case No 87-16374. (Civil District Court for the Parish of Orleans, State of Louisiana 2000) T his case resulted in one of the largest settlements in US History. This campaign consisted of a media relations and paid advertising program to notify individuals of their rights under the terms of the settlement.

In re: Garria Spencer v. Shell Oil Company, Case No. CV 94-074, District Court, Harris County Texas (1995). The nation wide notification program was designed to reach individuals who owned real property or structures in the United States which contained polybutylene plumbing with acetyl insert or metal insert fittings.

In re: Rene Rosales v. Fortune Insurance Company, Case No 99-04588 CA (41) Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida (2000). Finegan provided expert testimony in this matter. She conducted an audit on behalf of intervening attorneys for the proposed notification to individuals insured with personal injury insurance. Based upon the audit; Ms. Finegan testified that the proposed notice program was inadequate. The Court agreed and signed an Order Granting Intervenors' Objections to Class Action settlement...The Honorable Jose M. Rodriques said:

> ***"The Court finds that Ms. Finegan is qualified as an expert on class notice and effective media campaigns. The Court finds that her testimony is credible and reliable."***

Based in part on Finegan' s testimony, the Court ruled in favor of the intervening parties and disapproved the parties' original settlement agreement, vacating the order of preliminary approval.

In re: Hurd Millwork Heat MirrorTm Litigation Case No. CV-772488, (Superior Court of the State of California for the County of Santa Clara 2000). This nationwide multi-media notice program was designed to reach class members with failed heat mirror seals on windows and doors, and alert them as to the actions that they needed to take to receive enhanced warranties or window and door replacement.

In re: Laborers District Counsel of Alabama Health and Welfare Fund v Clinical Laboratory Services. Inc, Case No. CV-97-C-629-W (Northern District of Alabama 2000.) Finegan designed and developed a national media and Internet site notification program in connection with the settlement of a nationwide class action concerning alleged billing discrepancies for clinical laboratory testing services.

In re: StarLink Corn Products Liability Ligations Case No. 01 C 1181, (Northern District of Illinois, Eastern Division 2002). Finegan designed and

implemented a nationwide notification program designed to alert potential class members of the terms of the settlement.

In re: Albertson's Back Pay Litigation, Case No. 97-0159-S-BLW, U.S. District Court of Idaho (1997). Finegan designed and developed a secure Internet site, where claimants could seek case information confidentially.

In re: Georgia Pacific Hardboard Siding Recovering Program, Case No. CV-95-3330-RG, Circuit Court for the County of Mobile, State of Alabama (1997). Finegan designed and implemented a multi-media legal notice program, which was designed to reach class members with failed G-P siding and alert them of the pending matter. Notice was provided through advertisements which aired on national cable networks, magazines of nationwide distribution, local newspaper, press releases and trade magazines.

In re: Diet Drum Litigation, Finegan has worked on many state notification programs and worked as a consultant to the National Diet Drug Settlement Committee on notification issues.

In re: ABS II Pipes Litigation, Case No. 3126, Contra Costa Superior Court, State of California (1998 and 2001). The Court approved regional notification program designed to alert those individuals who owned structures with the pipe, that they were eligible to recover the cost of replacing the pipe. (www.abspipes.com/).

In re: Avenue A Inc. Internet Privacy Litigation District Court for the Western District of Washington Case No: COO-1964C.

In re: Lorazepam and Clorazepate Antitrust Litigation, MDL No. 1290 (TFH) United States District Court for the District of Columbia.

In re: Providian Financial Corporation ERISA Litigation Case No C-01-5027 United States District Court for the Northern District of California.

In re: H & R Block., et al Tax Refund Litigation State of Maryland Circuit Court for Baltimore City Case No. 97195023/CC4111

In re: American Premier Underwriters, Inc. U.S. Railroad Vest Corp. Boone Circuit Court – Boone County, Indiana. Cause No: 06C01-9912

In re: Sprint Corporation Optical Fiber Litigation District Court of Leavenworth Co, Kansas Case No: 9907 CV 284

In re: Shelter Mutual Insurance Company Litigation District Court in and for Canadian Co. State of Oklahoma Case No. CJ-2002-263

In re: Conseco, Inc. Securities Litigation Southern District of Indiana Indianapolis Division Case No: IP-00-0585-C Y/S CA

In re: National Treasury Employees Union, et al United States Court of Federal Claims Case No: 02-128C

In re: City of Miami Parking Litigation Circuit Court of the 11 m Judicial Circuit in and for Miami Dade County, Florida Case Nos: 99-21456 CA-10, 99-23765 − CA-10.

In re: Prime Co. Incorporated DB/A/Prime Co. Personal Communications, United States Court Eastern District of Texas Beaumont Division − Civil Action No. L I :01 CV65 8.

In re: Alsea Veneer v. State of OreRon A.A., Case No. 88C-11289-88C-11300.

A Sample of Finegan's Bankruptcy Experience −

Finegan has designed and implemented literally hundreds of domestic and international bankruptcy notice programs. A sample case list includes the following:

In re: United Airlines, Case No. 02-B-48191 (Bnkr. N.D Illinois Eastern Division) Finegan worked with United and its restructuring attorneys to design and implement global legal notice programs. The notice was published in 11 countries and translated into 6 languages. Finegan worked closely with legal counsel and UAL' s advertising team to select the appropriate media and to negotiate the most favorable advertising rates. (www.pd-ual.com/).

In re: Enron, Case No. 01-16034 (Bankr. S.D.N.Y.) Finegan worked with Enron and its restructuring attorneys to publish various legal notices.

In re: Dow Corning, Case No. 95-20512 (Bankr. E.D. Mich.) Finegan originally designed the information website. This Internet site is a major information hub that has various forms in 15 languages.

In re: Harnischfeger Industries, Case No. 99-2171 (RJW) Jointly Administered U.S. Bankr., District of Delaware. Finegan designed and implemented 6 domestic and international notice programs for this case. The notice was translated into 14 different languages and published in 16 countries.

In re: Keene Corporation, Case No. 93B 46090 (SMB) U.S. Bankr. Eastern District of Missouri, Eastern Division. Finegan designed and implemented multiple domestic bankruptcy notice programs including notice on the plan of reorganization directed to all creditors and all Class 4 asbestos-related claimants and counsel.

In re: Lamonts, Case No. 00-00045 U.S. Bankr. Western District of Washington. Finegan designed an implemented multiple bankruptcy notice programs.

In re: Monet Group Holdings, Case Nos. 00-I936 (MFW) U.S. Bankr. District of Delaware. Finegan designed and implemented a bar date notice.

In re: Laclede Steel Company, Case No 98-53121-399 US Bankr. CT, Eastern District of MO, Eastern Division. Finegan designed and implemented multiple bankruptcy notice programs.

In re: Columbia Gas Transmission Corporation, Case No. 91-804 Bankr., Southern District of New York; Finegan developed multiple nation-wide legal notice notification programs for this case.

In re: U.S.H. Corporation of New York, et al., and (BRL) Bank Southern District of New York; she designed and implemented a bar date advertising notification campaign.

In re: Best Products Co., Inc., Bankr. Case No. 96-35267-T, Eastern District of Virginia; she implemented a national legal notice program that included multiple advertising campaigns for notice of sale, bar date, disclosure and plan confirmation.

In re: Lodgian, Inc., et al – Southern District Court of New York Case No. 16345 (BRL) Factory Card Outlet – 99-685 (JCA), 99-686 (JCA)

In re: International Total Services, Inc., et al. – Eastern District Court of New York, Case No: 01-21812, 01-21818, 01-21820, 01-21882, 01-21824, 01-21826, 01-21827 (CD) Under Case No: 01-21812

In re: Decora Industries, Inc and Decora, Incorporated, District of Delaware Case No: 00-4459 and 00-4460 (JJF)

In re: Genesis Health Ventures, Inc., et al − District of Delaware Case No. 002692 (PJW)

In re: Telephone Warehouse, Inc., et al − District of Delaware Case No. 00-2105 through 00-2110 (MFW)

In re: United Companies Financial Corporation. et al,., District of Delaware Case No. 99-450 (MFW) through 99-461 (MFW)

In re: Caldor. Inc. New York, The Caldor Corporation. Caldor, Inc. CT, et al. Southern District of New York Case No: 95-B44080 (JLG)

In re: Physicians Health Corporation, et al. District of Delaware Case No: 00-4482 (MFW)

In re: GC Companies., et al. District of Delaware Case Nos: 00-3897 through 00-3927 (MFW)

In re: Heilig-Meyers Company, et al. Eastern District of Virginia (Richmond Division) Case Nos: 00-34533 through 00-34538.

Product Recall and Crisis Communication

Reser's Fine Foods – Reser's is a nationally distributed brand and manufacturer of food products through giants such as Albertsons, Costco, Food Lion, WinnDixie, Ingles, Safeway and Walmart, Finegan designed an enterprise wide crisis communication plan that included communications objectives, crisis team roles and responsibilities, crisis response procedures, regulatory protocols, definitions of incidents that require various levels of notice, target audiences, and threat assessment protocols. Finegan worked with the company through two nationwide, high profile recalls, conducting extensive media relations efforts.

Background

Prior to joining The Garden City Group, Inc., Finegan co-founded Huntington Advertising, a nationally recognized leader in legal notice communications. After Fleet Bank purchased her firm in 1997; she grew the company into one of the nation's leading legal notice communication agencies.

Prior to that, Finegan spearheaded Huntington Communications, (an Internet development company) and The Huntington Group, Inc., (a public relations firm). As a partner and consultant, she has worked on a wide variety of client marketing, research, advertising, public relations and Internet programs. During her tenure at the Huntington Group, client projects included advertising (media planning and buying), shareholder meetings, direct mail, public relations (planning, financial communications) and community outreach programs. Her past client list includes large public and privately held companies: Code-A-Phone Corp., Thrifty-Payless Drug Stores, Hyster-Yale, The Portland Winter Hawks Hockey Team, U.S. National Bank, U.S. Trust Company, Morley Capital Management, and Durametal Corporation.

Prior to Huntington Advertising, Finegan worked as a consultant and public relations specialist for a West Coast-based Management and Public Relations Consulting firm.

Additionally, Finegan has experience in news and public affairs. Her professional background includes being a reporter, anchor and public affairs director for KWJJ/KJIB radio in Portland, Oregon, as well as reporter covering state government for KBZY radio in Salem, Oregon. Finegan worked as an assistant television program/promotion manager for KPDX directing $50 million in programming. Additionally she was the program/promotion manager at and KECH-22 television.

Finegan's multi-level communication background gives her a thorough, hands-on understanding of media, the communication process, and how it relates to creating effective and efficient legal notice campaigns.

Articles

Co-Author, "**Approaches to Notice in State Court Class Actions**," – For The Defense, Vol. 45, No. 11 – November, 2003.

Citation – "**Recall Effectiveness Research**: A Review and Summary of the Literature on Consumer Motivation and Behavior" U.S. Consumer Product Safety Commission, CPSC-F-02-1391, p.10, Heiden Associates – July 2003.

Author, "**The Web Offers Near, Real-Time Cost Efficient Notice**," – American Bankruptcy Institute – ABI Journal, Vol. XXII, No. 5. – 2003.

Author, "**Determining Adequate Notice in Rule 23 Actions**," – For The Defense, Vol. 44, No. 9 – September, 2002,

Author, **Legal Notice, What You Need To Know and Why**, – Monograph, July 2002.

Co-Author, "**The Electronic Nature of Legal Noticing**," – The American Bankruptcy Institute Journal -Vol. XXI, No. 3, April 2002.

Author, "**Three Important Mantras for CEO' s and Risk Managers in 2002**" – International Risk Management Institute – irmi.com/ January 2002.

Co-Author, "**Used the Bat Signal Lately**" – The National Law Journal, Special Litigation Section – February 19, 2001.

Author, "**How Much is Enough Notice**" – Dispute Resolution Alert, Vol. 1, No. 6. March 2001.

Author, "**Monitoring the Internet Buzz**" – The Risk Report, Vol. XXIII, No. 5, fan. 200I.

Author, "**High-Profile Product Recalls Need More Than the Bat Signal**" – International Risk Management Institute – irmi.com/July 2001.

7:o-Author, "Do you know what 100 million people are buzzing about today? Risk and Insurance Management – March 2001.

Quoted Article: "Keep Up with Class Action" Kentucky Courier Journal – March 3, 2000.

Author, "**The Great Debate – How Much is Enough Legal Notice?**" American Bar Association – Class Actions and Derivatives Suits Newsletter, Winter edition 999.

Speaker/Expert Panelist/Presenter

Practicing Law Institute	Faculty Panelist – CLE Presentation -11`h Annual Consumer Financial Services Litigation. Presentation: Class Action Settlement Structures – Evolving Notice Standards in the Internet Age. New York/Boston (simulcast), NY March 2006; Chicago, IL April 2006 and San Francisco, CA May 2006.
U.S. Consumer Product Safety Commission	Ms. Finegan participated as an Expert to the Consumer Product Safety Commission to discuss ways in which the CPSC could enhance and measure the recall process. As an expert panelist, Ms Finegan discussed how the CPSC could better motivate consumers to take action on recalls and how companies could scientifically measure and defend their outreach efforts. Bethesda MD, September 2003.
Weil, Gotshal & Manges	CLE presentation "A Scientific Approach to Legal Notice Communication" New York, June 2003.
Sidley & Austin	CLE presentation "A Scientific Approach to Legal Notice Communication" Los Angeles, May 2003.
Kirkland & Ellis	Speaker to restructuring group addressing "The Best Practicable Methods to Give Notice in a Tort Bankruptcy." Chicago, April 2002.
Georgetown University Law Center Mass Tort Litigation Institute	CLE White Paper: What are the best practicable methods to give notice? Dispelling the communications myth − A notice disseminated is a notice communicated. Faculty – Mass Tort Litigation Institute - Washington D.C., November 1, 2001.
American Bar Association	How to Bullet-Proof Notice Programs and what communication barriers present due process concerns in legal notice. Presentation to the ABA Litigation Section Committee on Class Actions & Derivative Suits − Chicago, IL, August 6, 2001.
McCutchin, Doyle, Brown & Enerson	Speaker to litigation group in San Francisco and simulcast to four other McCutchin locations, addressing the definition of effective notice and barriers to communication that affect due process in legal notice. San Francisco, CA − June 2001.

Marylhurst University	Guest lecturer on public relations research methods. Portland, OR - February 2001.
University of Oregon	Guest speaker to MBA candidates on quantitative and qualitative research for marketing and communications programs. Portland, OR − May 2001.
Judicial Arbitration & Mediation Services (JAMS)	Speaker on the definition of effective notice. San Francisco and Los Angeles, CA − June 2000.
International Risk Management Institute	Expert Commentator on Crisis and Litigation Communications. www.irmi.com/
The American Bankruptcy Institute Journal (ABI)	Past Contributing Editor – Beyond the Quill. www.abi.org/.

Memberships and Professional Credentials

APR − Accredited Public Relations − The Universal Board of Accreditation Public Relations Society of America.

Member Portland Advertising Federation

Member of the Public Relations Society

Exhibit 2

GCG' s Sample Multi-National experience

In re *Federal-Mogul Global Inc.*, No. 01-10578 (AMW) (Bankr. D. Del. 2003). The worldwide notice program for the Federal-Mogul Bankruptcy case was published in 127 countries, 307 publications, and 69 languages. In addition, the notice was published in 28 major publications in United Kingdom and in 14 major publications in the United States. (http://www.fmoplan.com/).

Complexities*: The Class consisted of multiple sets of demographics; both white collar and blue collar workers. We analyzed the media and media habits of these populations in the involved countries and published the notice as was necessary to reach both groups effectively. A four-tiered rationale was tailored, so that notice was distributed in an effective manor. Countries were assigned to a tier according to their level of business with Federal Mogul.*

In Re Western Union Money Transfer Litig., Master File No. CV 01 0335 (CPS) (E.D.N.Y 2002). The court approved a worldwide settlement and notice program. The Legal Notice was published in more than 160 publications, in more than 80 countries and in more than 20 languages, it is one of the largest international notice programs ever. (http://www.cruzlitigation.com/).

Complexities: The web site was developed in 20 native languages.

This notice program was developed after thorough analysis of the data relating to the amount of and number of transactions conducted around the world. Publications in countries were determined by the volume of money and transactions both inbound from and outbound to the United States. For example, when it was shown that a large amount of money was transferred from the United States to Guatemala, ethnic publications catering specifically to the Guatemalan populations in the United States were used. Also the reverse was true, when large amounts of money were transferred to the United States from other countries, we analyzed the widely circulated, well read publications in those countries. This complex analysis and implementation effectively reached all the targeted populations.

In re: Swiss Banks Holocaust Victim Asset Litigation Case No. CV-96-4849, (E.D.N.Y. 1999). Finegan managed the design and implementation of the Internet site. The site was developed in 21 native languages. It is a highly secure data gathering tool and information hub, central to the global outreach program of Holocaust survivors. The website can be viewed at www.swissbankclaims.com/.

Complexities: The web site had to be developed in 21 native languages. The site also had to be designed to work under the lowest common browser. The site was tested across more than 100 different platforms so that a wide range of visitors could easily access this site. Because of the sensitive nature of the information collected on this site, extraordinary security measures had to be established and actively managed to protect it from intrusion and to this day cannot be fully disclosed.

At several points during the notice campaign the site was used as a platform for real-time press conference coverage at four sites simultaneously. Press conferences were held in New York, Tel Aviv, Paris and Budapest.

In re: Mexico Money Transfer Litigation Settlement, 164 F. Supp. 2d 1002 (N.D. Ill. 2000). (need to bring up the text) This case involved the alleged failure of Western Union and Money Gram to pass along currency conversion discounts to their customers and to post the currency conversion rates in stores. GCG was extensively involved in helping the corporate defendants identify settlement options and related costs. (http://www.gardencitygroup.com/cases/pdf/WES/WESNotice,pdf)

***Complexities**; The challenges in this case were numerous in light of the sheer volume of data from the money transfer companies (approximately 47 million records). GCG designed and formatted bilingual notices and claim forms and implemented an extremely complex notice program that included United States and Mexico radio, TV, and newspapers, as well as an 800-number telephone support system in Mexico and the United States. Extensive tracking and reporting of all activities was required for each of three defendants. We recently implemented the claims phase of this settlement with the completed mailing of over 5,000,000 claim forms. Once the processing of claims is complete later this spring, we will begin mailing thousands of coupons to approved claimants. As a follow-up to this settlement, we have just recently initiated the notice phase of a settlement entitled Amorsolo v. Western Union Financial Services, Ina This case of over 3.2 million California-only class members mimics the process described above. GCG is responsible for implementing all phases of the settlement.*

EXHIBIT B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re NORTEL NETWORKS CORP. SECURITIES LITIGATION	:	Civil Action No. 01-CV-1855 (RMB)
	:	CLASS ACTION
This Document Relates To: ALL ACTIONS	:	

ORDER AND FINAL JUDGMENT

On the _____ day of _____, 2006, a hearing having been held before this Court to determine: (1) whether the terms and conditions of the Stipulation and Agreement of Settlement dated _____, 2006 (the "Stipulation") are fair, reasonable and adequate for the settlement of all claims asserted by the U.S. Global Class against the Defendants in the Complaint now pending in this Court under the above caption, including the release of the Defendants and the Released Parties, and should be approved; (2) whether judgment should be entered dismissing the Complaint on the merits and with prejudice in favor of the Defendants and as against all persons or entities who are members of the U.S. Global Class herein who have not requested exclusion therefrom; (3) whether to approve the Plan of Allocation as a fair and reasonable method to allocate the settlement proceeds among the members of the U.S. Global Class; and (4) whether and in what amount to award Lead Plaintiffs Counsel fees and reimbursement of expenses. The Court having considered all matters submitted to it at the hearing and otherwise; and it appearing that a notice of the hearing substantially in the form approved by the Court (including French language versions sent to addresses in Quebec, Canada)

was mailed to all persons or entities reasonably identifiable, who purchased common stock of Nortel Networks Corporation ("Nortel"), or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive (the "Class Period"), except those persons or entities excluded from the definition of the U.S. Global Class or who previously excluded themselves from the U.S. Global Class, as shown by the records of Nortel' s transfer agent, and the records compiled by the Claims Administrator in connection with its previous mailing of the Notice of Pendency, at the respective addresses set forth in such records, and that a summary notice of the hearing substantially in the form approved by the Court was published pursuant to the Notice Plan as set forth in the Affidavit of _____, and the Court having considered and determined the fairness and reasonableness of the award of attorneys' fees and expenses requested by Lead Plaintiff' s Counsel; and all capitalized terms used herein having the meanings as set forth and defined in the Stipulation.

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

1. The Court has jurisdiction over the subject matter of the Action, the Lead Plaintiff, all U.S. Global Class Members, and the Defendants.

2. The Court finds that the prerequisites for a class action under (United States) Federal Rules of Civil Procedure 23(a) and (b)(3) have been satisfied in that: (a) the number of U.S. Global Class Members is so numerous that joinder of all members thereof is impracticable; (b) there are questions of law and fact common to the U.S. Global Class; (c) the claims of the U.S. Global Class Representatives are typical of the claims of the U.S. Global Class they seek to represent; (d) the Class Representatives have and will fairly and adequately represent the interests of the U.S. Global Class; (e) the questions of law and fact common to the members of

the U.S. Global Class predominate over any questions affecting only individual members of the U.S. Global Class; and (f) a class action is superior to other available methods for the fair and efficient adjudication of the controversy.

3. Pursuant to Rule 23 of the (United States) Federal Rules of Civil Procedure this Court hereby finally certifies this action as a class action on behalf of all persons and entities who purchased Nortel common stock, or purchased call options on Nortel common stock, or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the period between October 24, 2000 through February 15, 2001, inclusive, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from the U.S. Global Class are Defendants, members of any of the Individual Defendants' immediate families, any entity in which any Defendant has a controlling interest or is a parent or subsidiary of or is controlled by the Company, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the Defendants. Also excluded from the U.S. Global Class for this Action are the persons and/or entities who previously excluded themselves as listed on Exhibit 1 annexed hereto, and those who have now requested exclusion from the U.S. Global Class by filing a request for exclusion as listed on Exhibit 2 annexed hereto.

4. Notice of the pendency of this Action as a class action and of the proposed Settlement was given to all U.S. Global Class Members who could be identified with reasonable effort. The form and method of notifying the U.S. Global Class of the pendency of the action as a class action and of the terms and conditions of the proposed Settlement met the requirements of Rule 23 of the (United States) Federal Rules of Civil Procedure, Section 21D(a)(7) of the (United

States) Securities Exchange Act of 1934, 15 U.S.C. 78u-4(a)(7), as amended, including by the (United States) Private Securities Litigation Reform Act of 1995 (the "PSLRA"), Rule 23.1 of the Local Rules of the Southern and Eastern Districts of New York, due process, and any other applicable law, constituted the best notice practicable under the circumstances, and constituted due and sufficient notice to all persons and entities entitled thereto.

5. The Settlement is approved as fair, reasonable and adequate. Subject to the terms and provisions of the Stipulation and the conditions therein being satisfied, the parties are directed to consummate the Settlement.

6. The Gross Settlement Shares are to be issued solely in exchange for bona fide outstanding claims. All parties to whom it is proposed to issue such securities have had the right to appear at the hearing on the fairness of the Settlement and adequate notice has been given to all such parties. The Court recognizes and acknowledges that one consequence of its approval of the Settlement at the Settlement Fairness Hearing is that, pursuant to Section 3(a)(10) of the (United States) Securities Act of 1933, as amended, 15 U.S.C. § 77c(a)(1), the Gross Settlement Shares may be distributed to Class Members (and to Plaintiffs' Counsel as may be awarded by the respective Courts for attorneys' fees) without registration and compliance with the prospectus delivery requirements of the U.S. securities laws as the Gross Settlement Shares will be exempt from registration under the (United States) Securities Act of 1933, 15 U.S.C. § 77c(a)(1), as amended, pursuant to Section 3(a)(10) thereunder. The Court also acknowledges that Nortel will rely on such 3(a)(10) exemption (and Nortel will not register the Gross Settlement Shares under the (United States) Securities Act of 1933) based on this Court' s approval of the fairness of the Settlement.

7. The Complaint, which the Court finds was filed on a good faith basis in accordance with the Private Securities Litigation Reform Act and Rule 11 of the (United States) Federal Rules of Civil Procedure based upon all publicly available information, is hereby dismissed in its entirety with prejudice and without costs, except as provided in the Stipulation, as against the Defendants.

8. Lead Plaintiff and each U.S. Global Class Member who has not validly opted out, whether or not such U.S. Global Class Member executes and delivers a Proof of Claim, on behalf of themselves, their heirs, executors, administrators, successors and assigns, are hereby permanently barred and enjoined from instituting, commencing or prosecuting any and all claims, debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or un-accrued, liquidated or un-liquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and Unknown Claims, (i) that have been asserted in this Action by the U.S. Global Class Members or any of them against any of the Released Parties, or (ii) that could have been asserted in any forum by the U.S. Global Class Members or any of them against any of the Released Parties which arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint and which relate to the purchase of Nortel common stock or call options on Nortel common stock or the sale of put options on Nortel common stock during the Class Period, or (iii) any oppression or other claims under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon

the allegations, transactions, facts, matters or occurrences, representations or omissions during the Class Period, set forth or referred to in the Nortel I Actions, (the "Settled Claims"), against any and all of the Defendants, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, attorneys, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with any of the Defendants, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the Defendants (the "Released Parties"); *provided*, *however*, that "Settled Claims" does not mean or include (a) claims, if any, against the Released Parties arising under the (United States) Employee Retirement Income Security Act of 1974, as amended, 29 U.S.C. § 1001, et seq. (" ERISA") which are not common to all U.S. Global Class Members and which are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No, 1537; (b) the action in *Rohac, et al. v. Nortel Networks Corporation, et al.*, Court File No. 04-CV-3268 (Ont. Sup. Ct. J.); and (c) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the Canada Business Corporations Act to commence a representative action in the name of and on behalf of Nortel against certain of the Released Parties (the "Derivative Application"). Each U.S. Global Class Member who has not validly opted out has fully, finally, and forever released,

relinquished, and discharged all Settled Claims against the Released Parties and each such U.S. Global Class Member is bound by this judgment, including without limitations, the release of claims as set forth in the Stipulation. The Settled Claims are hereby compromised, settled, released, discharged and dismissed as against the Released Parties on the merits and with prejudice by virtue of the proceedings herein and this Order and Final Judgment.

9. Defendants Nortel, Clarence Chandran and John Roth, and the successors and assigns of any of them, are hereby permanently barred and enjoined from instituting, commencing or prosecuting any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, state, provincial, local, statutory or common law or any other law, rule or regulation, including both known claims and unknown claims, that have been or could have been asserted in the Action or any forum by the Defendants or any of them or the successors and assigns of any of them against any of the Lead Plaintiff, U.S. Global Class Members or their attorneys, which arise out of or relate in any way to the institution, prosecution, or settlement of the Action (except for claims to enforce the Settlement, confidentiality obligations or in respect of the Derivative Application) (the "Settled Defendants' Claims"). The Settled Defendants' Claims of all the Released Parties are hereby compromised, settled, released, discharged and dismissed on the merits and with prejudice by virtue of the proceedings herein and this Order and Final Judgment. In the event that any of the Released Parties asserts against the Lead Plaintiff, any U.S. Global Class Member or their respective counsel, any claim that is a Settled Defendants' Claim, then Lead Plaintiff, such U.S. Global Class Member or counsel shall be entitled to use and assert such factual matters included within the Settled Claims only against such Released Party in defense of such claim but not for the purposes of asserting any claim against any Released Party.

10. Pursuant to the PSLRA, the Released Parties are hereby discharged from all claims for contribution by any person or entity other than by Released Parties, whether arising under state, provincial, federal or common law, based upon, arising out of, relating to, or in connection with the Settled Claims of the U.S. Global Class or any U.S. Global Class Member. Accordingly, to the full extent provided by the PSLRA, the Court hereby bars all claims for contribution: (a) against the Released Parties by any person or entity other than the Released Parties; and (b) by the Released Parties against any person or entity other than the Released Parties.

11. Neither this Order and Final Judgment, the Stipulation, nor any of its terms and provisions, nor any of the negotiations or proceedings connected with it, nor any of the documents or statements referred to therein shall be:

(a) offered or received against the Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of the Defendants with respect to the truth of any fact alleged by any of the plaintiffs or the validity of any claim that has been or could have been asserted in the Action or in any litigation, or the deficiency of any defense that has been or could have been asserted in the Action or in any litigation, or of any liability, negligence, fault, or wrongdoing of the Defendants;

(b) offered or received against the Defendants as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant;

(c) offered or received against the Defendants as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against any of the Defendants, in any other civil, criminal

or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of the Stipulation; provided, however, that Defendants may refer to it to effectuate the liability protection granted them hereunder;

(d) construed against the Defendants as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial; or

(e) construed as or received in evidence as an admission, concession or presumption against Lead Plaintiff or any of the U.S. Global Class Members that any of their claims are without merit, or that any defenses asserted by the Defendants have any merit, or that damages recoverable under the Complaint would not have exceeded the Gross Settlement Fund.

12. The Plan of Allocation is approved as fair and reasonable, and Plaintiff s Counsel and the Claims Administrator are directed to administer the Stipulation in accordance with its terms and provisions.

13. The Court finds that all parties and their counsel have complied with each requirement of Rule 11 of the (United States) Federal Rules of Civil Procedure as to all proceedings herein.

14. Lead Plaintiffs Counsel in this Action are hereby awarded attorneys' fees in the amount of _____% of the Gross Cash Settlement Fund (net of litigation expenses awarded in the next sentence), and _____% of the Gross Settlement Shares, which amounts the Court finds to be fair and reasonable. Lead Plaintiffs Counsel are hereby awarded $_____ in reimbursement of expenses, which expenses shall be paid to Plaintiffs Lead Counsel from the Gross Cash Settlement Fund with interest from the date such Gross Cash Settlement Fund was funded to the date of payment at the same net rate that the Gross Cash Settlement Fund earns. The award of

attorneys' fees shall be allocated among plaintiffs' counsel in a fashion which, in the opinion of Plaintiffs Lead Counsel, fairly compensates such counsel for their respective contributions in the prosecution and settlement of the Action.

15. The fees and expenses of plaintiffs' counsel in the Canadian Actions, as determined by the Canadian Courts shall be paid from the Gross Settlement Fund.

16. Lead Plaintiff Ontario Public Service Employees' Union Pension Plan Trust Fund ("OPTrust") is hereby awarded $_____. Such award is for reimbursement of the Lead Plaintiffs reasonable costs and expenses (including lost wages) directly related to its representation of the U.S. Global Class.

17. In making this award of attorneys' fees and reimbursement of expenses to be paid from the Gross Settlement Fund, the Court has considered and found that:

(a) the Settlement has created a cash fund of $438,667,428 that is already on deposit earning interest, and will also provide for the benefit of the Class 314,333,875 shares of Nortel common stock;

(b) The Settlement will entitle the Class to receive one-quarter of any actual gross recovery by Nortel in the existing litigation by Nortel against Frank Dunn, Douglas Beatty and Michael Gollogly (including the value of any monetary benefit that Nortel might receive from the defendants by way of forgiveness or cancellation of any monetary debt owed by Nortel to such defendants), excluding attorneys' fees and expenses awarded by the court, if any;

(c) Nortel has agreed to adopt the corporate governance enhancements described in Appendix A to Tab 1 to Exhibit A of the Stipulation;

(d) Over _____ copies of the Notice were disseminated to putative Class Members indicating that Lead Plaintiffs Counsel were moving for attorneys' fees in the amount

of up to 10% of the Gross Settlement Fund less litigation expenses awarded by the Court, and for reimbursement of expenses in an amount of approximately $5 million, and [_____] objections were filed against the terms of the proposed Settlement or the ceiling on the fees and expenses requested by Lead Plaintiffs Counsel contained in the Notice;

(e) Lead Plaintiffs Counsel have conducted the litigation and achieved the Settlement with skill, perseverance and diligent advocacy;

(f) The action involves complex factual and legal issues and was actively prosecuted over 6 years and, in the absence of a settlement, would involve further lengthy proceedings with uncertain resolution of the complex factual and legal issues;

(g) Had Lead Plaintiffs Counsel not achieved the Settlement there would remain a significant risk that Lead Plaintiff and the Class may have recovered less or nothing from the Defendants;

(h) Lead Plaintiff' s Counsel have devoted over _____ hours, with a lodestar value of $_____, to achieve the Settlement; and

(i) The amount of attorneys' fees awarded and expenses reimbursed from the Settlement Fund are fair and reasonable and consistent with awards in similar cases.

18. Any appeal or any challenge affecting the approval of (a) the Plan of Allocation submitted by Lead Plaintiffs Counsel and/or (b) this Court' s approval regarding any attorneys' fees and expense application shall in no way disturb or affect the finality of the other provisions of this Final Judgment.

19. Jurisdiction is hereby retained over the parties and the U.S. Global Class Members for all matters relating to this Action, including the administration, interpretation, effectuation or enforcement of the Stipulation and this Order and Final Judgment, and including

any application for fees and expenses incurred in connection with administering and distributing the settlement proceeds to the members of the U.S. Global Class.

20. In the event that the Settlement does not become Final in accordance with the terms of the Stipulation, or is terminated pursuant to ¶ 27 of the Stipulation, this judgment shall be rendered null and void to the extent provided by and in accordance with the Stipulation and shall be vacated and in such event all orders entered and released by and in accordance with the Stipulation.

21. Without further order of the Court, the parties may agree to reasonable extensions of time to carry out any of the provisions of the Stipulation.

22. There is no just reason for delay in the entry of this Order and Final Judgment and immediate entry by the Clerk of the Court is expressly directed pursuant to Rule 54(b) of the (United States) Federal Rules of Civil Procedure.

Dated: New York, New York
_____, 2006

_____

[Insert Judge Name: Honorable _____]
UNITED STATES DISTRICT JUDGE

Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

EXHIBIT C

SUPPLEMENTAL AGREEMENT - NORTEL I

Pursuant to ¶ 23 of the Nortel 1 Stipulation and Agreement of Settlement dated June 20, 2006 (the "Stipulation") between the Lead Plaintiff and Norte/ in *In re Norte/ Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01 Civ 1855 (RMB), as also adopted and ratified by Canadian Class Counsel in the Nortel I Canadian Actions, the terms under which Nortel may withdraw from and terminate the Stipulation are as follows:

1. All capitalized terms used, but not defined herein, shall have the meanings ascribed to them in the Stipulation.

2. Norte/ shall have the option, but not the obligation, to terminate the Settlement in the event that the aggregate number of shares of Norte' common stock purchased during the Class Period by Class Members who would otherwise be entitled to participate as members of the Class, but who timely and validly request exclusion, equals or exceeds [ ] (the "Opt-out Threshold") of the total number of shares of Norte/ common stock purchased during the Class Period.

3. It is expressly understood and agreed that, for the purposes of calculating the Opt-out Threshold in ¶ 2, the only persons and entities who will be included in the calculation are those persons and entities who are Class Members, excluding those persons or entities who previously requested exclusion in response to the Notice of Pendency, as listed on Tab 1 to Exhibit J annexed to the Stipulation, whether or not they are Class Members.

4. Nortel shall further have the option, but not the obligation, to terminate the Settlement in the event that the aggregate number of shares of Nortel common stock purchased

during the Nortel II Class Period by members of the Nortel II Class who would otherwise be entitled to participate as members of the Nortel II Class, but who timely and validly request exclusion, equals or exceeds [ ] of the total number of shares of Nortel common stock purchased during the Nortel II Class Period

5. Lead Plaintiff and Nortel, with the cooperation of Canadian Class Counsel, shall make every effort to ensure that the first settlement fairness hearing in any of the Nortel I Actions shall be scheduled no earlier than fifteen (15) calendar days after the last date for exclusion in any of the Nortel I Actions.

6. Subject to the dates for exclusion and the terms of ¶ 5, the Preliminary Approval Order shall provide that requests for exclusion shall be received at least fifteen (15) calendar days prior to the date of the Settlement Fairness Hearing before the United States District Court for the Southern District of New York ("U.S. Settlement Fairness Hearing") specified in the Notice. Upon receiving any request(s) for exclusion pursuant to the Notice, the Claims Administrator shall promptly (or in no event fewer than ten (10) calendar days prior to the U.S. Settlement Fairness Hearing date) notify Plaintiffs' Counsel and Nortel' s Counsel of such request(s) for exclusion. Upon receiving any request(s) for exclusion pursuant to the Notice, Nortel' s Counsel shall promptly notify Plaintiffs Counsel and the Claims Administrator of such request(s) for exclusion.

7. If Nortel elects to exercise either of the options set forth in ¶ 2 or ¶ 4 hereof, written notice of such election must be provided to Plaintiffs' Counsel at least five (5) calendar days prior to the U.S. Settlement Fairness Hearing.

8. In the event that Nortel files a written notice of its intent to terminate the Settlement pursuant to ¶ 7 hereof, Nortel may withdraw its election by providing written notice

of such withdrawal to Plaintiffs' Counsel no later than 5:00 P.M. Eastern Time on the day prior to the U.S. Settlement Fairness Hearing, or by such later time as shall be agreed upon in writing as between Lead Plaintiff' s Counsel and Nortel' s Counsel, on notice to Canadian Class Counsel.

9. If Nortel elects to withdraw from the Stipulation pursuant to ¶ 2 or ¶ 4 hereof, Plaintiffs' Counsel may, within five (5) calendar days of receipt of such notice of intention to withdraw from the Settlement (or such longer period as shall be agreed upon in writing between Lead Plaintiff' s Counsel and Nortel' s Counsel), review the validity of any request for exclusion and may attempt to cause retraction or withdrawal of any such request for exclusion. If, within the five (5) calendar day period (or longer period agreed upon in writing), Plaintiffs' Counsel succeed in causing the filing of retractions or withdrawals (which retractions and withdrawals shall be in form and substance acceptable to Nortel' s Counsel) of a sufficient number of requests for exclusion such that the number of shares represented by the remaining requests for exclusion does not constitute grounds for withdrawal as specified in ¶ 2 or ¶ 4 above, then any withdrawal from the Stipulation by Nortel shall automatically be deemed to be a nullity. To retract or withdraw a prior request for exclusion, a Class Member or member of the Nortel II class must file a signed written notice with either the United States District Court for the Southern District of New York or, in the case of Canadian Class Members, the Canadian Court that certified the Canadian Class to which the Class Member belongs, stating that the person or entity retracts or withdraws his, her or its request for exclusion and that the person or entity agrees to be bound by the Settlement and the Judgments in these Nortel I or Nortel II Actions as the case may be; provided, however, that the filing of such written notice signed by the Class Member or member of the Nortel II class may be effected by Plaintiffs' Counsel on written direction by the Class Member or member of the Nortel II Class. Upon receipt of such written notice from such a Class

Member or member of the Nortel II class, Plaintiffs' Counsel shall provide a copy of such written notice to Nortel' s Counsel.

10. If Nortel elects to withdraw from the Stipulation in accordance with ¶ 2 or ¶ 4 of this Supplemental Agreement and such withdrawal is not nullified in accordance with ¶ 8 of this Supplemental Agreement, the Stipulation shall be withdrawn and terminated and deemed null and void, and the provisions of ¶ 28 of the Stipulation shall apply.

11. The Parties intend that the Opt-out Threshold in this Supplemental Agreement be maintained as confidential. Subject to orders of the Courts, the Supplemental Agreement shall not be filed with the Courts in such a manner so as to disclose publicly the Opt-out Threshold itself prior to the deadline for submitting requests for exclusion unless a dispute arises as to its terms. Notwithstanding the foregoing, the Opt-out Threshold may be disclosed to the Courts, as may be required by the Courts, for purposes of approval of the Settlement, but such disclosure shall be carried out to the fullest extent possible in accordance with the practices of the respective Courts so as to maintain the confidentiality of the Opt-out Threshold.

DATED: June 20, 2006

MILBERG WEISS BERSHAD & SCHULMAN LLP

By: /s/ George A. Bauer
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Lead Plaintiff' s Counsel

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Nortel' s Counsel

EXHIBIT D

Court File No. 02-CL-4605

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE SENIOR REGIONAL	)	DAY, THE DAY
	)	
JUSTICE WINKLER	)	OF JUNE, 2006

BETWEEN:

LESLIE FROHLINGER

Plaintiff

- and -

NORTEL NETWORKS CORPORATION, JOHN ANDREW ROTH, FRANK DUNN, F. WILLIAM CONNER, CHAHRAM BOLOURI, WILLIAM R. HAWE and DELOITTE & TOUCHE LLP

Defendants

Proceedings under the *Class Proceeding Act*, 1992

ORDER

THIS MOTION made by the Plaintiff for an Order certifying this action as a class proceeding for the purpose of settlement, approving the notice to class members and other declaratory relief was heard this day at the Court House, 361 University Avenue, Toronto, Ontario.

ON READING the materials filed, including the Settlement Agreement (defined herein), and on hearing the submissions of counsel for the Plaintiff and counsel for the Defendants:

1. **THIS COURT ORDERS AND DECLARES** that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**British Columbia Action**" means the proceeding in the Supreme Court of British Columbia, *Jeffery et al v. Nortel Networks Corporation et al.*, Court File No. S0151590, Vancouver Registry;

(b) "**British Columbia Class**" means all persons and entities, except **Excluded Persons** who, while resident in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period;

(c) "**British Columbia Court**" means the Supreme Court of British Columbia;

(d) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 11 to administer the **Settlement**;

(e) "**Class Members**" means members of the British Columbia Class, the Ontario National Class, the Quebec Class and the U.S. Global Class;

(f) "**Class Period**" means the period of time between October 24, 2000 through February 15, 2001, inclusive;

(g) "**Courts**" means the **Ontario Court**, the **British Columbia Court**, the **Quebec Court** and the **U.S. Court**;

(h) "**Defendants**" means the persons and entities named as defendants in the **Ontario National Action**;

(i) "**Escrow Agents**" has the meaning set forth in the Stipulation;

(j) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(k) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(l) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(m) "**Individuals**" means Clarence Chandran, Frank Dunn and John Andrew Roth;

(n) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(o) "**Nortel I Actions**" means the **Ontario National Action**, the **Quebec Action**, the **British Columbia Action** and the **U.S. Action**;

(p) "**Nortel I Defendants**" means the Defendants and Clarence Chandran;

(q) "**Notice**" means the notice to the classes in the **Nortel I Actions** substantially in the form attached as Schedule "B" to this Order;

(r) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice, Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "D" to this Order;

(s) "**Ontario National Action**" means this proceeding which raises claims in the nature of negligence, negligent and/or reckless misrepresentation, and alleges breaches of the *Canada Business Corporations Act, Competition Act* and Ontario *Securities Act*, for which relief is sought through an award of damages;

(t) "**Ontario National Class**" means the class certified for the purpose of settlement in the **Ontario National Action** pursuant to paragraph 3 of this Order;

(u) "**Ontario National Class Counsel**" means Rochon Genova LLP and Lerners LLP;

(v) "**Ontario National Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Ontario National Class Counsel**;

(w) "**Ontario National Class Member**" means a member of the **Ontario National Class** who does not opt out of the **Ontario National Class** in the manner set forth in this Order;

(x) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order;

(y) "**Publication Notice**" means the summary notice of certification and proposed settlement, and of the hearing of the **Settlement Approval Motion**, substantially in the form attached as Schedule "E" to this Order;

(z) "**Quebec Action**" means the proceeding in the Superior Court of Quebec (District of Montreal), *Association de Protection des Epargnants et Investisseurs du Quebec v. Corporation Nortel Networks*, No: 500-06-000126-017;

(aa) "**Quebec Class**" means all persons, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(bb) "**Quebec Court**" means the Superior Court of Quebec;

(cc) "**Released Parties**" means any and all of the **Nortel I Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants,

administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel I Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel I Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel I Defendants**;

(dd) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Nortel I Actions**;

(ee) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel I Actions** against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel I Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Nortel I Actions and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel I Actions**. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, *et seq*. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include; (a) the action in *Rohac et al v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the application brought in I*ndiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the Canada Business Corporations Act to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties**;

(ff) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached thereto, entered into between the Plaintiff herein and Nortel, through their counsel dated June 20, 2006, which is attached to this Order as Schedule "A";

(gg) "**Settlement**" means the proposed settlement of the **Nortel I Actions** pursuant to the terms set forth in the Settlement Agreement adopting and ratifying the **Stipulation**;

(hh) "**Settlement Approval Motion**" means the motion for final approval of the Settlement by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(ii) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the **Settlement Agreement** as Schedule "A";

(jj) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(kk) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties**, which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(ll) "**U.S. Action**" means the proceeding in the U.S. Federal District Court for the Southern District of New York, Consolidated Civil Action No. 2001-CV-1855 (RMB), certified by that Court as a class action on September 5, 2003,

(mm) "**U.S. Court**" means the U.S. Federal District Court for the Southern District of New York;

(nn) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from this class are any putative class members who previously requested exclusion in response to a notice dated March 10, 2004 that was mailed to members of this class beginning on April 12, 2004 notifying them of the pendency of the **U.S. Action**.

2. **THIS COURT ORDERS** that the Ontario National Action be certified as a class proceeding for the purpose of settlement.

3. **THIS COURT ORDERS** that the Ontario National Class be defined as:

> All persons and entities, except Excluded Persons and members of the British Columbia Class and the Quebec Class, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period.

4. **THIS COURT ORDERS** that Leslie Frohlinger be and is hereby appointed as the representative plaintiff for the Ontario National Class.

5. **THIS COURT ORDERS** that the Ontario National Action is certified as a class proceeding for the purpose of settlement on the basis of the following common issue:

> Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings guidance during the Class Period?

6. **THIS COURT ORDERS** that the Settlement Approval Motion and the motion by Ontario National Class Counsel for approval of Ontario National Class Counsel Fees shall be heard by this Court on a date to be set by the Registrar, approximately 90 days from the date set herein for the mailing of the notice at the Court House at 361 University Avenue, Toronto, Ontario.

7. **THIS COURT ORDERS** that each potential member of the Ontario National Class who elects to opt out of the Ontario National Class must do so by writing a letter, signed by such person, clearly requesting exclusion and indicating the name, address and telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common stock or call options on Nortel common stock and of all put options of Nortel common stock written (sold) during the Class Period, and sending it by first class mail post marked no later than 60 days after the date set herein for mailing of the notice, to the address indicated in the Notice.

8. **THIS COURT ORDERS** that any potential member of the Ontario National Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any future

Orders in the Ontario National Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in each of the Nortel I Actions.

9. **THIS COURT ORDERS** that potential members of the Ontario National Class who, prior to the date of this Order, opted out of, or requested exclusion from, the U.S. Action will be members of the Ontario National Class and shall be bound by any future Orders in the Ontario National Action and by the terms of the Settlement, unless they opt out of the Ontario National Class in accordance with paragraph 7 of this Order.

10. **THIS COURT ORDERS** that any potential member of the Ontario National Class who opts out of the Ontario National Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel I Actions, shall not be entitled to file a Proof of Claim as provided in paragraph 20 of this Order, shall not be entitled to receive any payment out of the Settlement and shall not be entitled to object to the approval of the Settlement as provided in paragraph 22 of this Order.

11. **THIS COURT ORDERS** that The Garden City Group, Inc is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the Ontario National Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

12. **THIS COURT ORDERS** that the Escrow Agents, acting in their capacity as escrow agents, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

13. **THIS COURT ORDERS** that the form and content of the Notice, substantially in the form attached hereto as Schedule “B”, is hereby approved.

14. **THIS COURT ORDERS** that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

15. **THIS COURT ORDERS** that the plan of dissemination of the Notice substantially in the manner described in the Notice Plan attached to this Order as Schedule "D" is hereby approved.

16. **THIS COURT ORDERS** that upon approval of the Notice and the Proof of Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, on or before 14 days after entry of the last order by any of the courts in the Nortel I actions and the Nortel II actions (as defined in the stipulation) approving the notice applicable to that proceeding, to all members of the Ontario National Class who can be identified with reasonable effort, in accordance with the Notice Plan.

17. **THIS COURT ORDERS** that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

18. **THIS COURT ORDERS** that Ontario National Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

19. **THIS COURT ORDERS** that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved, and directs that Claims

Administrator shall cause the Publication Notice to be published in accordance with the Notice Plan, which publication shall begin within ten (10) days of the mailing of the Notice, and Ontario National Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

20. **THIS COURT ORDERS** that in order to be entitled to participate in the Net Settlement Fund (as defined in the Stipulation), each Ontario National Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than 120 days after the date set herein for the mailing of the notice. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund (as defined in the Stipulation).

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

21. **THIS COURT ORDERS** that the Proof of Claim submitted by each Ontario National Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slip, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Ontario National Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

22. **THIS COURT ORDERS** that, as part of the Proof of Claim, each Ontario National Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts) release all Settled Claims against the Released Parties.

23. **THIS COURT ORDERS** that Ontario National Class Members who wish to file with the Court an objection or comment to the Settlement or to the approval of Ontario National Class Counsel Fees shall deliver a written submission to the Claims Administrator at the address indicated in the Notice, no later than 60 days after the date set herein for the mailing of the notice, and the Claims Administrator shall file all such submissions with the Court prior to the hearing of the Settlement Approval Motion.

24. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) is terminated pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the certification of the action as a class proceeding for the purpose of settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the Ontario National Action shall be restored to his, her or its respective position in the litigation as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this Action shall be decertified as a class proceeding pursuant to Section 10 of the *Class Proceedings Act*, *1992*, without prejudice to the Plaintiffs ability to reapply for certification.

25. **THIS COURT ACKNOWLEDGES** having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon by Nortel for an exemption, pursuant to Section 3(a)(l0) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), to enable the Gross Settlement Shares to be distributed to Class Members, and to counsel for the Representative Plaintiffs as may be awarded by the respective Courts, without registration and compliance with the prospectus delivery requirements of U.S. securities laws.

26. **THIS COURT DECLARES** that Schedule "A" hereto satisfies the requirements of subsections 8(1)(c) and (d) of the *Class Proceedings Act*, *1992*.

LESLIE FROHLINGER. Plaintiff	and	NORTEL NETWORKS CORPORATION et al. Defendants	Court File No: 02-CL-4605

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

ORDER

EXHIBIT E

CANADA

(CLASS ACTION)

PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

SUPERIOR COURT

NO.: 500-06-000126-017

ASSOCIATION DE PROTECTION DES ÉPARGNANTS ET INVESTISSEURS DU QUEBEC (A.P.E.I.Q.)

Petitioner

and

ANDRÉ DUSSAULT

Designated person

v.

CORPORATION NORTEL NETWORKS

Respondent

and

FONDS D' AIDE AUX RECOURS COLLECTIFS

Mis en cause

ORDER

THIS MOTION made by the Petitioner for a Judgment authorizing the bringing of the class action for the purpose of settlement pursuant to the Stipulation and Agreement of Settlement (the "Settlement Agreement") entered into between the Petitioner and the Respondent was heard this day.

ON READING the materials filed, including the Settlement Agreement (defined herein), and on hearing the submissions of counsel for the Petitioner and counsel for the Respondent:

1. **THIS COURT ORDERS AND DECLARES** that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**British Columbia Action**" means the proceeding in the Supreme Court of British Columbia, *Jeffery et al.* v. *Nortel Networks Corporation et al.*, Court File No. SO 151590, Vancouver Registry;

(b) "**British Columbia Class**" means all persons and entities, except **Excluded Persons** who, while resident in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period;**

(c) "**British Columbia Court**" means the Supreme Court of British Columbia;

(d) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 11 to administer the **Settlement**;

(e) "**Class Members**" means members of the British Columbia Class, the Ontario National Class, the Quebec Class and the U.S. Global Class;

(f) "**Class Period**" means the period of time between October 24, 2000 through February 15, 2001, inclusive;

(g) "**Courts**" means the **Ontario Court,** the **British Columbia Court,** the **Quebec Court** and the **U.S. Court;**

(h) "**Defendant**" means the Respondent, Corporation Nortel Networks;

(i) "**Escrow Agents**" has the meaning set forth in the **Stipulation**;

(j) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(k) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(l) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(m) "**Individuals**" means Clarence Chandran, Frank Dunn and John Andrew Roth;

(n) "**Nortel**" means the Respondent, Corporation Nortel Networks;

(o) "**Nortel I Actions**" means the **Ontario National Action,** the **Quebec Action,** the **British Columbia Action** and the **U.S. Action;**

(p) "**Nortel I Defendants**" means the Defendant and Clarence Chandran;

(q) "**Notice**" means the global notice to the classes in the **Nortel I Actions** substantially in the form attached as Schedule "B" to this Order, as approved in paragraph 13 of this Order;

(r) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice, Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "D" to this Order;

(s) "**Ontario Court**" means the Ontario Superior Court of Justice;

(t) "**Ontario National Action**" means the proceeding in the Ontario Superior Court of Justice, *Frohlinger v. Nortel Networks Corporation et al.,* Court File No. 02-CL-4605;

(u) "**Ontario National Class**" means all persons and entities, except **Excluded Persons** and except members of the **British Columbia Class** and the **Quebec Class**, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period;**

(v) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order, as approved in paragraph 14 of this Order;

(w) "**Publication Notice**" means the summary notice of certification and proposed settlement, and of the hearing of the **Settlement Approval Motion,** substantially in the form attached as Schedule "E" to this Order, as approved in paragraph 19 of this Order;

(x) "**Quebec Action**" means this proceeding;

(y) "**Quebec Class**" means all persons, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period;**

(z) "**Quebec Class Counsel**" means Belleau Lapointe, S.A., and Unterberg, Labelle, Lebeau S.E.N.C.;

(aa) "**Quebec Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Quebec Class Counsel;**

(bb) "**Quebec Class Member**" means a member of the **Quebec Class** who does not opt out of the **Quebec Class** in the manner set forth in this Order;

(cc) "**Quebec Court**" means the Superior Court of Quebec;

(dd) "**Released Parties**" means any and all of the **Nortel I Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, attorneys, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel I Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel I Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel I Defendants**;

(ee) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Nortel I Actions**;

(ff) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the Nortel I Actions against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel I Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel I Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Canada Business Corporations Act,* R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel I Actions. Settled Claims** does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, et seq. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. **Settled Claims** farther does not include: (a) the action in *Rohac et al v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the application brought in

Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties** and others;

(gg) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached thereto, entered into between the Petitioner herein and Nortel, through their counsel dated June ___, 2006, which is attached to this Order as Schedule "A";

(hh) "**Settlement**" means the proposed settlement of the **Nortel I Actions** pursuant to the terms set forth in the **Settlement Agreement** adopting and ratifying the **Stipulation**;

(ii) "**Settlement Approval Motion**" means the motion for final approval of the **Settlement** by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(jj) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the Settlement Agreement as Schedule "A";

(kk) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the Class;

(ll) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs,** or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties,** which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(mm) "**U.S. Action**" means the proceeding in the U.S. Federal District Court for the Southern District of New York, Consolidated Civil Action No. 2001-CV-1855 (RMB), certified by that Court as a class action on September 5, 2003;

(nn) "**U.S. Court**" means the U.S. Federal District Court for the Southern District of New York; and

(oo) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from this class are any putative class members who previously requested exclusion in

response to a notice dated March 10, 2004 that was mailed to members of this class beginning on April 12, 2004 notifying them of the pendency of the **U.S. Action.**

2. **THIS COURT ORDERS** that the bringing of the Quebec Action as a class action be authorized for the purpose of settlement.

3. **THIS COURT ORDERS** that the Quebec Class be defined as:

All persons, except Excluded Persons who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period.

4. **THIS COURT ORDERS** that the Association de protection des épargnants et investisseurs du Québec (A.P.E.I.Q.) and Andre Dussault be and are hereby appointed as the Representatives for the Quebec Class.

5. **THIS COURT ORDERS** that the bringing of the Quebec Action as a class action is authorized for the purpose of settlement only, on the basis of the following common issue:

Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings guidance during the Class Period?

6. **THIS COURT ORDERS** that the Settlement Approval Motion and the motion by Quebec Class Counsel for approval of Quebec Class Counsel Fees shall be heard by this Court on, ___2006, at ___:___.m. at the Montreal Court House, located at 1, Notre-Dame Street East, Montreal, Quebec.

7. **THIS COURT ORDERS** that each potential member of the Quebec Class who elects to opt out of the Quebec Class must do so by writing a letter, signed by such person, requesting exclusion and clearly indicating the name, address and telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common stock or call options on Nortel common stock and of all put options of Nortel common stock

written (sold) during the Class Period, and sending it by first class mail post marked no later than ___, 2006, to the address indicated in the Notice.

8. **THIS COURT ORDERS** that any potential member of the Quebec Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any future Orders in the Quebec Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in each of the Nortel I Actions.

9. **THIS COURT ORDERS** that potential members of the Quebec Class who, prior to the date of this Order, opted out of, or requested exclusion from, the U.S. Action will be members of the Quebec Class and shall be bound by any future Orders in the Quebec Action and by the terms of the Settlement, unless they opt out of the Quebec Class in accordance with paragraph 7 of this Order.

10. **THIS COURT ORDERS** that any potential member of the Quebec Class who opts out of the Quebec Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel I Actions, shall not be entitled to file a Proof of Claim as provided in paragraph 20 of this Order, shall not be entitled to receive any payment out of the Settlement and shall not be entitled to object to the approval of the Settlement as provided in paragraph 22 of this Order.

11. **THIS COURT ORDERS** that The Garden City Group, Inc. is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the Quebec Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

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12. **THIS COURT ORDERS** that the Escrow Agents, acting in their capacity as escrow agents, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

13. **THIS COURT ORDERS** that the form and content of the Notice, substantially in the form attached hereto as Schedule "B", is hereby approved.

14. **THIS COURT ORDERS** that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

15. **THIS COURT ORDERS** that the plan of dissemination of the Notice in the manner described in the Notice Plan attached to this Order as Schedule "D", is hereby approved.

16. **THIS COURT ORDERS** that upon approval of the Notice and the Proof of Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, on or before ___, 2006, to all of the Quebec Class Members who can be identified with reasonable effort, in accordance with the Notice Plan.

17. **THIS COURT ORDERS** that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

18. **THIS COURT ORDERS** that Quebec Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

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19. **THIS COURT ORDERS** that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved, and directs that Claims Administrator shall cause the Publication Notice to be published in accordance with the Notice Plan, which publication shall begin within ten (10) days of the mailing of the Notice, and Quebec Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

20. **THIS COURT ORDERS** that in order to be entitled to participate in the Net Settlement Fund (as defined in the Stipulation), each Quebec Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than ___, 2006. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund (as defined in the Stipulation).

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

21. **THIS COURT ORDERS** that the Proof of Claim submitted by each Quebec Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Quebec Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

22. **THIS COURT ORDERS** that, as part of the Proof of Claim, each Quebec Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts) release all Settled Claims against the Released Parties.

23. **THIS COURT ORDERS** that Quebec Class Members who wish to file with the Court an objection or comment to the Settlement or to the approval of Quebec Class Counsel Fees shall deliver a written submission to the Claims Administrator at the address indicated in the Notice, no later than , 2006, and the Claims Administrator shall file all such submissions with the Court prior to the hearing of the Settlement Approval Motion.

24. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) is terminated pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the authorization of the bringing of the Quebec Action as a class action for the purpose of settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the Quebec Action shall be restored to his, her or its respective position in the litigation as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this Action authorizing the bringing of the class action shall be annulled pursuant to the *Code of Civil Procedure*, without prejudice to the Petitioner' s ability to reapply for certification.

25. **THIS COURT ACKNOWLEDGES** having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon by Nortel for

an exemption, pursuant to Section 3(a)(10) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), to enable the Gross Settlement Shares to be distributed to Class Members, and to counsel for the Representative Plaintiffs as may be awarded by the respective Courts, without registration and compliance with the prospectus delivery requirements of U.S. securities laws.

Date J.C.S.

EXHIBIT F

No. S015159
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN:

JANIE JEFFERY and RONALD MENSING

Plaintiffs

AND:

NORTEL NETWORKS CORPORATION, JOHN A. ROTH, FRANK A. DUNN, F. WILLIAM CONNOR and CHAHRAM BOLOURI

Defendants

Brought under the *Class Proceedings Act*, R.S.B.C. 1996, c.50

ORDER

	) THE HONOURABLE	)	DAY THE
BEFORE	)	)	DAY
	) MR. JUSTICE GROBERMAN	)	OF JUNE, 2006

THE APPLICATION of the Plaintiffs for an Order certifying this action as a class proceeding for the purpose of settlement, approving the notice to Class Members, and other declaratory relief coming on for hearing at Vancouver, British Columbia on the ___day of June 2006 **AND ON HEARING** ___, counsel for the Plaintiff, and on hearing ___, counsel for the Defendant ___, and on hearing ___, counsel for the Defendant ___**AND ON READING** the materials filed, including the Settlement Agreement (defined herein).

1. **THIS COURT ORDERS AND DECLARES** that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**British Columbia Action**" means this proceeding;

(b) "**British Columbia Class**" means the class certified for the purpose of settlement in the **British Columbia Action** pursuant to paragraph 3 of this Order;

(c) "**British Columbia Class Counsel**" means Klein Lyons.

(d) "**British Columbia Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **British Columbia Class Counsel**;

(e) "**British Columbia Class Member**" means a member of the **British Columbia Class** who does not opt out of the **British Columbia Class** in the manner set forth in this Order;

(f) "**British Columbia Court**" means the Supreme Court of British Columbia;

(g) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 11 to administer the **Settlement**;

(h) "**Class Members**" means members of the British Columbia Class, the Ontario National Class, the Quebec Class and the U.S. Global Class;

(i) "**Class Period**" means the period of time between October 24, 2000 through February 15, 2001, inclusive;

(j) "**Courts**" means the **British Columbia Court**, the **Ontario Court**, the **Quebec Court** and the **U.S. Court**;

(k) "**Defendants**" means Nortel and the persons named as defendants in the **British Columbia Action**;

(l) "**Escrow Agents**" has the meaning set forth in the **Stipulation**;

(m) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(n) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(o) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(p) "**Individuals**" means Clarence Chandran, Frank Dunn and John Andrew Roth;

(q) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(r) "**Nortel I Actions**" means the **Ontario National Action**, the **Quebec Action**, the **British Columbia Action** and the **U.S. Action**;

(s) "**Nortel I Defendants**" means the Defendants William R. Hawe, Clarence Chandran, and Deloitte & Touche LLP;

(t) "**Notice**" means the notice to the classes in the **Nortel I Actions** substantially in the form attached as Schedule "B" to this Order;

(u) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice**, **Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "D" to this Order;

(v) "**Ontario Court**" means the Ontario Superior Court of Justice;

(w) "**Ontario National Action**" means the proceeding in the Ontario Superior Court of Justice, *Frohlinger v. Nortel Networks Corporation et al.*, Ontario Court File No. 02-CL-4605;

(x) "**Ontario National Class**" means all persons and entities, except **Excluded Persons** and members of the British Columbia Class and the Quebec Class who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period;

(y) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order;

(z) "**Publication Notice**" means the summary notice of certification and proposed settlement, and of the hearing of the **Settlement Approval Motion**, substantially in the form attached as Schedule "E" to this Order;

(aa) "**Quebec Action**" means the proceeding in the Superior Court of Quebec (District of Montreal), *Association de Protection des Epargnants et Investisseurs du Québec v. Corporation Nortel Networks*, No: 500-06-000126-017;

(bb) "**Quebec Class**" means all persons, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(cc) "**Quebec Court**" means the Superior Court of Quebec;

(dd) "**Released Parties**" means any and all of the **Nortel I Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, attorneys, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel I Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel I**

Defendants, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel I Defendants**;

(ee) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Nortel I Actions**;

(ff) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel I Actions** against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel I Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel I Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel I Actions**. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, et seq. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include (a) the action in *Rohac et al v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) "the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties** and others;

(gg) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached thereto, entered into between the Plaintiffs herein and Nortel, through their counsel, dated June , 2006, which is attached to this Order as Schedule "A";

(hh) "**Settlement**" means the proposed settlement of the Nortel I Actions pursuant to the terms set forth in the **Stipulation**;

(ii) "**Settlement Approval Motion**" means the motion for final approval of the **Settlement** by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(jj) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the **Settlement Agreement** as Schedule "A";

(kk) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(ll) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(mm) "**U.S. Action**" means the proceeding in the U.S. Federal District Court for the Southern District of New York, Consolidated Civil Action No. 2001-CV-1855 (RMB), certified by that Court as a class action on September 5, 2003;

(nn) "**U.S. Court**" means the U.S. Federal District Court for the Southern District of New York;

(oo) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from this class are any putative class members who previously requested exclusion in response to a notice dated March 10, 2004 that was mailed to members of this class beginning on April 12, 2004 notifying them of the pendency of the **U.S. Action**.

2. **THIS COURT ORDERS** that the British Columbia Action be certified as a class proceeding for the purpose of settlement.

3. **THIS COURT ORDERS** that the British Columbia Class be defined as:

All persons and entities, except Excluded Persons who, while resident in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock or

wrote (sold) put options on Nortel common stock during the Class Period.

4. **THIS COURT ORDERS** that Janie Jeffery and Ronald Mensing are appointed as the representative plaintiffs for the British Columbia Class.

5. **THIS COURT ORDERS** that the British Columbia Action is certified as a class proceeding for settlement purposes only, on the basis of the following common issue:

   Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings guidance during the Class Period?

6. **THIS COURT ORDERS** that the Settlement Approval Motion and the motion by British Columbia Class Counsel for approval of British Columbia Class Counsel Fees shall be heard by this Court on ___, 2006, at___:___.m. at the Supreme Court of British Columbia, 800 Smithe Street, Vancouver, British Columbia.

7. **THIS COURT ORDERS** that each potential member of the British Columbia Class who elects to opt out of the British Columbia Class must do so by writing a letter, signed by such person, clearly requesting exclusion and indicating the name, address and telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common stock or call options on Nortel common stock and of all put options of Nortel common stock written (sold) during the Class Period, and sending it by first class mail post marked no later than , 2006 to the address indicated in the Notice.

8. **THIS COURT ORDERS** that any potential member of the British Columbia Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any

future Orders in the British Columbia Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in the Nortel I Actions.

9. **THIS COURT ORDERS** that potential members of the British Columbia Class who, prior to the date of this Order, opted out of, or requested exclusion from, the U.S. Action will be members of the British Columbia Class and shall be bound by any future Orders in the British Columbia Action and by the terms of the Settlement, unless they opt out of the British Columbia Class in accordance with paragraph 7 of this Order.

10. **THIS COURT ORDERS** that any potential member of the British Columbia Class who opts out of the British Columbia Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel I Actions, shall not be entitled to file a Proof of Claim as provided in paragraph 21 of this Order, shall not be entitled to receive any payment out of the Settlement, and shall not be entitled to object to the approval of the Settlement as provided in paragraph 23 of this Order.

11. **THIS COURT ORDERS** that The Garden City Group, Inc. is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the British Columbia Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

12. **THIS COURT ORDERS** that the Escrow Agents, acting in their capacity as escrow agents, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

13. **THIS COURT ORDERS** that the form and content of the Notice, substantially in the form attached hereto as Schedule “B”, is hereby approved.

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14. **THIS COURT ORDERS** that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

15. **THIS COURT ORDERS** that the plan of dissemination of the Notice in the manner described in the Notice Plan attached to this Order as Schedule D", is hereby approved.

16. **THIS COURT ORDERS** that upon approval of the Notice and the Proof of Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, on or before ___, 2006 to all members of the British Columbia Class who can be identified with reasonable effort, in accordance with the Notice Plan.

17. **THIS COURT ORDERS** that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

18. **THIS COURT ORDERS** that British Columbia Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

19. **THIS COURT ORDERS** that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved and directs that the Claims Administrator shall cause the Publication Notice to be published in accordance

with the Notice Plan, which publication shall begin within ten (10) days of the mailing of the Notice, and British Columbia Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

20. **THIS COURT ORDERS** that in order to be entitled to participate in the Net Settlement Fund (as defined in the Stipulation), each British Columbia Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than ___, 2006. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund (as defined in the Stipulation).

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

21. **THIS COURT ORDERS** that the Proof of Claim submitted by each British Columbia Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the British Columbia Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

22. **THIS COURT ORDERS** that, as part of the Proof of Claim, each British Columbia Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts), release all Settled Claims against the Released Parties.

23. **THIS COURT ORDERS** that British Columbia Class Members who wish to file with the Court an objection to or comment on the Settlement or to the approval of British Columbia Class Counsel Fees, shall deliver a written submission to the Claims Administrator at the address indicated in the Notice, no later than ___, 2006, and the Claims Administrator shall file all such submissions with the Court prior to the hearing of the Settlement Approval Motion.

24. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation or (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) is terminated pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the certification of the British Columbia Action as a class proceeding for the purpose of the settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the British Columbia Action shall be restored to his, her or its respective position in the litigation as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this action shall be decertified as a class proceeding pursuant to Section 10 of the *Class*

Proceedings Act, RSBC, 1996, c.50, without prejudice to the Plaintiffs' ability to reapply for certification.

25. **THIS COURT ACKNOWLEDGES** having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon by Nortel for an exemption, pursuant to Section 3(a)(10) of the *United States Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), to enable the Gross Settlement Shares to be distributed to Class Members, and to counsel for the Representative Plaintiffs as may be awarded by the respective Courts, without registration and compliance with the prospectus delivery requirements of U.S. securities laws

BY THE COURT

DEPUTY DISTRICT REGISTRAR

Approved as to form:

Solicitor for the Plaintiffs

Solicitor for the Defendants
Nortel Networks Corporation,
John A. Roth, F. William Conner
and Chahram Bolouri

Solicitor for the Defendant, Frank Dunn

Certification Order

No. S015159
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN:

JANIE JEFFERY and RONALD MENSING

Plaintiffs

AND:

NORTEL NETWORKS CORPORATION, JOHN A ROTH,
FRANK A. DUNN, F. WILLIAM CONNOR and CHAHRAM BOLOURI

Defendants

ORDER

EXHIBIT G

Court File No. 02-CL-4605

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE SENIOR REGIONAL	)	DAY, THE	DAY
	)		
JUSTICE WINKLER	)	OF ,2006	

BETWEEN:

LESLIE FROHLINGER

Plaintiff

- and -

NORTEL NETWORKS CORPORATION, JOHN ANDREW ROTH, FRANK DUNN, F. WILLIAM CONNER, CHAHRAM BOLOURI, WILLIAM R. HAWE and DELOITTE & TOUCHE LLP

Defendants

Proceedings under the *Class Proceeding Act, 1992*

ORDER

THIS MOTION made by the Plaintiff for an Order approving the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement (the "Settlement Agreement") entered into between the Plaintiff and the Defendant, Nortel Networks Corporation, approving Ontario National Class Counsel Fees and for declaratory relief, was heard this day at 361 University Avenue, Toronto, Ontario.

ON READING the materials filed, including the Settlement Agreement attached to this Order as Schedule "A", and on hearing the submissions of counsel for the Plaintiff and counsel for the Defendants:

1. THIS COURT DECLARES that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**British Columbia Action**" means the proceeding in Supreme Court of British Columbia, *Jeffery et al* v. *Nortel Networks Corporation et al*, Court File No. S0151590, Vancouver Registry;

(b) "**British Columbia Class**" means all persons and entities, except Excluded Persons who, while resident in British Columbia at time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(c) "**Canadian Actions**" means the **Ontario National Action**, the **British Columbia Action** and the **Quebec Action**;

(d) "**Certification Order**" means the Order certifying this action as a class proceeding dated June ___, 2006;

(e) "**Claims Administrator**" means The Garden City Group, Inc.;

(f) "**Class Members**" means members of the British Columbia Class, the Ontario National Class, the Quebec Class and the U.S. Global Class;

(g) "**Class Period**" means the period of time between October 24, 2000 through February 15, 2001, inclusive;

(h) "**Courts**" means this Court, the Supreme Court of British Columbia, the Superior Court of Quebec and the United States Federal District Court for the Southern District of New York;

(i) "**Defendants**" means the persons and entities named as defendants in the Ontario National Action;

(j) "**Derivative Application**" means the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the Canada Business Corporations Act to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties**;

(k) "**Effective Date**" means the date upon which the Settlement contemplated by the Settlement Agreement shall become effective, as provided in paragraph 24 of the Stipulation;

(l) "**Escrow Agent**" has the meaning set forth in the Stipulation;

(m) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the Individuals;

(n) "**Gross Settlement Fund**" has the meaning set forth in the Stipulation;

(o) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(p) "**Individuals**" means Clarence Chandran, Frank Dunn and John Andrew Roth;

(q) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(r) "**Nortel I Actions**" means the **Ontario National Action**, the **British Columbia Action**, the **Quebec Action** and the **U.S. Action**;

(s) "**Nortel I Defendants**" means the Defendants and Clarence Chandran;

(t) "**Nortel II Actions**" means the following proceedings in Canada and the U.S.:

(i) *Peter Gallardi* v. *Nortel Networks Corporation et al*., in the Ontario Superior Court of Justice, Toronto, Court File No. 05-CV-285606 CP;

(ii) *Clifford W. Skarstedt* v. *Corporation Nortel Networks*, in the Superior Court of Quebec, District of Montreal, No: 500-06-000277-059; and

(iii) *In re Nortel Networks Corp. Securities Litigation*, in the United States Federal District Court for the Southern District of New York, Master File No. 05-MD-1659 (LAP);

(u) "**Ontario National Action**" means this proceeding which raised claims in the nature of negligence, negligent and/or reckless misrepresentation, and alleges breaches of the Canada Business Corporations Act, Competition Act and Securities Act, for which relief was sought through an award of damages;

(v) "**Ontario National Class Counsel**" means Rochon Genova LLP and Lerners LLP;

(w) "**Ontario National Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Ontario National Class Counsel**, as approved by this Court in this Order;

(x) "**Ontario National Class**" means all persons and entities, except **Excluded Persons** and except members of the **British Columbia Class** and the **Quebec Class**, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(y) "**Ontario National Class Member**" means a member of the **Ontario National Class** who has not opted out of the **Ontario National Class** in accordance with the **Certification Order**;

(z) "**Other Actions**" means actions or proceedings, other than the **Proceedings**, relating to **Settled Claims** commenced by an **Ontario National Class Member** against one or more **Released Parties**;

(aa) "**Plan of Allocation**" means the plan of allocation set forth in the Notice of Certification in Canada and Proposed Settlements of Class Actions, Motion for Attorneys' Fees and Settlement Fairness Hearings and attached as Schedule "B" to this Order;

(bb) "**Proceedings**" means the **Ontario National Action**, the **Quebec Action**, the **British Columbia Action**, the **U.S. Action** and the **Nortel II Actions**;

(cc) "**Quebec Action**" means the proceeding in the Superior Court of Quebec (District of Montreal), *Association de Protection des Epargnants et Investisseurs du Québec* v. *Corporation Nortel Networks*, No: 500-06-000126-017;

(dd) "**Quebec Class**" means all persons, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) Nortel put options on Nortel common stock during the **Class Period**;

(ee) "**Released Parties**" means any and all of the **Nortel I Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or

limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel I Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel I Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the Nortel 1 Defendants;

(ff) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Canadian Actions** and the **U.S. Action**;

(gg) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the Nortel I Actions against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel I Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel I Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel I Actions**. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, *et seq*. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket

No. 1537. Settled Claims also does not include: (a) the action in *Rohac et al v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the **Derivative Application**;

(hh) "**Settled Defendants' Claims**" means any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, provincial, local, statutory or common law or any other law, rule or regulation, including both known claims and Unknown Claims, that have been or could have been asserted in the **Nortel I Actions** or any forum by the **Nortel I Defendants** or any of them or the successors and assigns or any of them against the **Representative Plaintiffs**, any **Class Member**, or their counsel, and that arise out of or relate in any way to the institution, prosecution, or settlement of the **Nortel I Actions** (except Settled Defendants' Claims does not include all claims, rights or causes of action or liabilities whatsoever related to the enforcement of the **Settlement** including, without limitation, any of the terms of the **Stipulation** or orders or judgments issued by the **Courts** in connection with the **Settlement**, confidentiality obligations or in respect of the **Derivative Application**);

(ii) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the Stipulation attached as Schedule "A" thereto, entered into between the Plaintiff herein and Nortel, through their counsel, dated as of June 20, 2006, attached to this Order as Schedule "A";

(jj) "**Settlement**" means the proposed settlement of the Nortel I Actions pursuant to the terms set forth in the Settlement Agreement adopting and ratifying the **Stipulation**;

(kk) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the **Settlement Agreement** as Schedule "A";

(ll) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(mm) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released**

Parties and any **Settled Defendants' Claims** which any **Nortel I Defendant** does not know or suspect to exist in his, her or its favour, which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(nn) "**U.S. Action**" means the proceeding in the United States Federal District Court for the Southern District of New York, *In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01-CV-1855 (RMB), certified as a class action on September 5, 2003; and

(oo) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from this class are any putative class members who previously requested exclusion in response to a notice dated March 10, 2004 that was mailed to members of this class beginning on April 12, 2004 notifying them of the pendency of the **U.S. Action**.

2. THIS COURT DECLARES that the Settlement Agreement is fair, reasonable and in the best interests of the Ontario National Class.

3. THIS COURT ORDERS that the Settlement Agreement attached to this Order as Schedule "A" is hereby approved pursuant to s. 29 of the Class Proceedings Act, 1992.

4. THIS COURT DECLARES that the Settlement Agreement is binding upon the representative Plaintiff, upon all Ontario National Class Members, and upon the Defendants, including those persons who are minors or mentally incapable, and that the requirements of Rules 7.04(1) and 7.08(4) of the Rules of Civil Procedure are dispensed with in respect of the Ontario National Action.

5. THIS COURT ORDERS that, upon the Effective Date, the Plaintiff herein and each of the Ontario National Class Members, on behalf of themselves, their personal representatives,

heirs, executors, administrators, trustees, successors and assigns, are hereby permanently barred and enjoined from instituting, commencing or prosecuting any Settled Claims against the Released Parties.

6. THIS COURT ORDERS AND DECLARES that, upon the Effective Date, the Plaintiff herein and each of the Ontario National Class Members, on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns shall release and shall be conclusively deemed to have fully, finally and forever released the Released Parties from the Settled Claims.

7. THIS COURT ORDERS that, upon the Effective Date, the Plaintiff herein and each of the Ontario National Class Members and their respective personal representatives, heirs, executors, administrators, trustees, successors and assigns, shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit, cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date, and are enjoined from doing so.

8. THIS COURT ORDERS that, upon the Effective Date, the defendants Nortel, Chahram Bolouri, F. William Conner, William Hawe and John Roth on behalf of themselves and their personal representatives, heirs, executors, administrators, trustees, successors and assigns, are hereby permanently barred and enjoined from prosecuting a Settled Defendants' Claim against the Plaintiff herein, the Ontario National Class Members or Ontario National Class Counsel. In

the event that any of the Released Parties assert against the Plaintiff, any Ontario National Class Member or the Ontario National Class Counsel, any claim that is a Settled Defendants' Claim, then the Plaintiff, such Ontario National Class Member or Ontario National Class Counsel, as the case may be, shall be entitled to use and assert such factual matters included within the Settled Claims only against such Released Party in defence of such claim but not for the purposes of asserting any claim against any Released Party.

9. THIS COURT ORDERS AND DECLARES that each Ontario National Class Member shall consent and shall be deemed to have consented to the dismissal of any Other Actions he, she or it has commenced against the Released Parties, without costs and with prejudice.

10. THIS COURT ORDERS that neither this Order, the Settlement Agreement, the Stipulation, nor any of their terms and provisions, nor any of the negotiations or proceedings connected with it, nor any of the documents or statements referred to therein shall be:

(a) offered or received against the Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of the Nortel I Defendants with respect to the truth of any fact alleged in the Statement of Claim, as amended, or the validity of any claim that has been or could have been asserted in the Ontario National Action or in any litigation, or the deficiency of any defence that has been or could have been asserted in the Ontario National Action or in any litigation, or of any liability, negligence, fault, or wrongdoing of the Defendants;

(b) offered or received against the Defendants as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant;

(c) offered or received against the Defendants as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against any of the Defendants, in any other civil, criminal or administrative action or

proceeding, other than such proceedings as may be necessary to enforce and give effect to the provisions of the Settlement Agreement (provided, however, that Defendants may refer to it to effectuate the release and liability protection granted them hereunder);

(d) construed against the Defendants as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial; or

(e) construed as or received in evidence as an admission, concession or presumption against the Plaintiff or any of the Ontario National Class Members that any of their claims are without merit, or that any defences asserted by the Defendants have any merit, or that damages recoverable under the Statement of Claim, as amended, would not have exceeded the amounts set forth under the Settlement Agreement.

11. THIS COURT ORDERS that the Plan of Allocation is approved as fair and reasonable.

12. THIS COURT ORDERS that Ontario National Class Counsel Fees in the amount of $___ in cash, and ___ shares, which includes $ ___ for disbursements, and which amounts this Court finds to be fair and reasonable, are hereby approved.

13. THIS COURT ORDERS that the Ontario National Class Counsel Fees shall be paid out of the Gross Settlement Fund.

14. THIS COURT ORDERS that this Court shall retain jurisdiction over the parties herein, the Ontario National Class Members, the Claims Administrator and the Escrow Agent for all matters relating to the Ontario National Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order, and including any application for fees and expenses by the Ontario National Class Counsel and the Claims Administrator incurred in overseeing and administering the Settlement, in distributing settlement

proceeds to the Ontario National Class Members, and in complying with the terms of this Order and the Certification Order.

15. THIS COURT ORDERS that, on notice to the Court but without further order of the Court, the parties to the Settlement Agreement may agree to reasonable extensions of time to carry out any of the provisions of the Settlement Agreement.

16. THIS COURT ORDERS AND DECLARES that the Released Parties have no responsibility for and no liability whatsoever with respect to the administration of the Settlement.

17. THIS COURT RECOGNIZES & ACKNOWLEDGES that: (i) one of the effects of its determination that the Settlement Agreement is fair is that, pursuant to Section 3(a)(l0) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(l), the Gross Settlement Shares may be distributed to Class Members, and to counsel for the plaintiffs in the Norte! I Actions as may be awarded by the respective Courts for counsel fees, without registration and compliance with the prospectus delivery requirements of U.S. securities laws; and (ii) Nortel will rely on such Section 3(a)(10) exemption (and Nortel will not register the Gross Settlement Shares under the United States Securities Act of 1933) based on this Court' s approval of the fairness of the Settlement.

18. THIS COURT DECLARES that all Ontario National Class Members to whom it is proposed to issue Gross Settlement Shares have had the right to appear at the hearing on the fairness of the Settlement Agreement, and that adequate notice of this hearing has been provided to Ontario National Class Members in accordance with the terms of the Certification Order.

19. THIS COURT ORDERS that if (a) the Settlement Agreement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation; (b) any specified

condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement Agreement as provided in paragraph 25 of the Stipulation; or (c) is otherwise terminated pursuant to paragraph 27 of the Stipulation, then, in any such event:

(a) this Order (except for paragraphs 1, 10, 14, 16, 17, 18 and 19 herein) shall be set aside, be of no further force or effect, and be without prejudice to any party;

(b) the Certification Order (except for paragraph 24), shall be set aside and be of no further force or effect, and without prejudice to any party;

(c) the Ontario National Action shall be immediately decertified as a class proceeding pursuant to Section 10 of the Class Proceedings Act, 1992, without prejudice to the Plaintiff' s ability to reapply for certification; and

(d) each party to the Ontario National Action shall be restored to his, her or its respective position as it existed immediately prior to the execution of the Settlement Agreement.

20. THIS COURT ORDERS AND ADJUDGES that any appeal or challenge affecting the approval of the Plan of Allocation or this Court' s approval of Ontario National Class Counsel Fees shall in no way disturb or affect the balance of this Order and shall be deemed to be separate and apart from the balance of this Order.

21. THIS COURT ORDERS AND ADJUDGES that, upon the Effective Date, the Ontario National Action be and is hereby dismissed against the Defendants with prejudice and without costs.

LESLIE FROHLINGER Plaintiff	And	NORTEL NETWORKS CORPORATION et al. Defendants	Court File No: 02-CL-4605

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

ORDER

EXHIBIT H

CANADA (CLASS ACTION)

PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

SUPERIOR COURT

NO.: 500-06-000126-017

ASSOCIATION DE PROTECTION DES ÉPARGNANTS ET INVESTISSEURS DU QUEBEC (A.P.E.I.Q.)

and

ANDRÉ DUSSAULT

Representatives

v.

CORPORATION NORTEL NETWORKS

Defendant

and

FONDS D' AIDE AUX RECOURS COLLECTIFS

Mis en cause

ORDER

THIS MOTION made by the Representatives for an Order approving the Settlement Agreement and Confirmation of Stipulation of Agreement of Settlement (the "Settlement Agreement") entered into between the Representatives and the Defendant, Corporation Nortel Networks, approving Quebec Class Counsel Fees and for declaratory relief, was heard this day.

ON READING the materials filed, including the Settlement Agreement attached to this Order as Schedule "A", and on hearing the submissions of counsel for the Representatives and counsel for the Defendant:

1. **THIS COURT ORDERS AND DECLARES** that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**Authorization Order**" means the Order authorizing the bringing of the class action for the purpose of settlement dated June ___2006;

(b) "**British Columbia Action**" means the proceeding in Supreme Court of British Columbia, *Jeffery et al. v. Nortel Networks Corporation et al.,* Court File No. S0151590, Vancouver Registry;

(c) "**British Columbia Class**" means all persons and entities, except **Excluded Persons** who, while resident in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period ;**

(d) "**Canadian Actions**" means the **Ontario National Action, the British Columbia Action** and the **Quebec Action**;

(e) "**Claims Administrator**" means the The Garden City Group, Inc.;

(f) "**Class Members**" means the members of the British Columbia Class, the Ontario National Class, the Quebec Class and the U.S. Global Class;

(g) "**Class Period**" means the period of time between October 24, 2000 through February 15, 2001, inclusive;

(h) "**Courts**" means this Court, the Supreme Court of British Columbia, the Ontario Supreme Court of Justice and the United States Federal District Court for the Southern District of New York;

(i) "**Defendant**" means Corporation Nortel Networks;

(j) "**Derivative Application**" means the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation,* Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties;**

(k) "**Effective Date**" means the date upon which the **Settlement** contemplated by the **Settlement Agreement** shall become effective, as provided in paragraph 24 of the **Stipulation;**

(l) "**Escrow Agent**" has the meaning set forth in the **Stipulation;**

(m) "**Excluded Persons**" means Nortel and the **Individuals,** members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals;**

(n) "**Gross Settlement Fund**" has the meaning set forth in the **Stipulation**;

(o) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement,** as may be adjusted in accordance with paragraph 4(d) of the **Stipulation;**

(p) "**Individuals**" means Clarence Chandran, Frank Dunn and John Andrew Roth;

(q) "**Nortel**" means the Defendant, Corporation Nortel Networks;

(r) "**Nortel I Actions**" means the **Ontario National Action,** the **British Columbia Action,** the **Quebec Action and the U.S. Action;**

(s) "**Nortel** I **Defendants**" means the Defendant and Clarence Chandran;

(t) "**Nortel II Actions**" means the following proceedings in Canada and the U.S.:

(i) *Peter Gallardi v. Nortel Networks Corporation et al.,* in the Ontario Superior Court of Justice, Toronto, Court File No. 05-CV-285606 CP;

(ii) *Clifford W. Skarstedt v. Corporation Nortel Networks,* in the Superior Court of Quebec, District of Montreal, No. 500-06-000277-059 and

(iii) *In re Nortel Networks Corp. Securities Litigation,* in the U.S. Federal District Court for the Southern District of New York, Master File No. 05-MD-1659 (LAP);

(u) "**Ontario National Action**" means the proceeding in the Ontario Superior Court of Justice, *Frohlinger v. Nortel Networks Corporation et al.,* Court File No. 02-CL-4605;

(v) "**Ontario National Class**" means all persons and entities, except Excluded Persons and except members of the **British Columbia Class**

and the **Quebec Class,** who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period;**

(w) "**Other Actions**" means actions or proceedings, other than the **Proceedings,** relating to **Settled Claims** commenced by a **Quebec Class Member** against one or more **Released Parties;**

(x) "**Plan of Allocation**" means the plan of allocation set forth in the Notice of Certification in Canada and Proposed Settlements of Class Actions, Motion for Attorneys' Fees and Settlement Fairness Hearings and attached as Schedule "B" to this Order;

(y) "Proceedings" means the Ontario National Action, the Quebec Action, the British Columbia Action, the U.S. Action and the Nortel II Actions;

(z) "Quebec Action" means this proceeding;

(aa) "**Quebec Class**" means all persons, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) Nortel put options on Nortel common stock during the Class Period;

(bb) "**Quebec Class Counsel**" means Belleau Lapointe, S.A., and Unterberg, Labelle, Lebeau S.E.N.C.;

(cc) "**Quebec Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Quebec Class Counsel,** as approved by this Court in this Order;

(dd) "**Quebec Class Member**" means a member of the Quebec Class who has not opted out of the **Quebec Class** in accordance with the **Authorization Order;**

(ee) "**Released Parties**" means any and all of the **Nortel I Defendants,** their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel** I **Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel I Defendants,** and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the Nortel I **Defendants;**

(ff) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Canadian Actions** and the **U.S. Action;**

(gg) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims,** (i) that have been asserted in any of the **Nortel** I **Actions** against any of the **Released Parties,** or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel** I **Actions,** or any of them, against any of the **Released Parties,** that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel** I **Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period or** (iii) any oppression or other claims under the *Canada Business Corporations Act,* R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel** I **Actions. Settled Claims** does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, ***et seq.*** **("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation,* MDL Docket No. 1537. **Settled Claims** also does not include: (a) the action in *Rohac et al. v. Nortel Networks et al.,* Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the **Derivative Application;**

(hh) "**Settled Defendants' Claims**" means any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, provincial, local, statutory or common law or any other law, rule or regulation, including both known claims and **Unknown Claims,** that have been or could have been asserted in the Nortel I Actions or any forum by the **Nortel I Defendants** or any of them or the successors and assigns or any of them against the **Representative Plaintiffs,** any **Class Member,** or their counsel, and that arise out of or relate in any way to the institution, prosecution, or settlement of the Nortel I **Actions** (except **Settled Defendants' Claims** does not include all claims, rights or causes of action or liabilities whatsoever related to the enforcement of the **Settlement** including, without limitation, any of the terms of the **Stipulation** or orders

or judgments issued by the **Courts** in connection with the **Settlement,** confidentiality obligations or in respect of the **Derivative Application);**

(ii) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached as Schedule "A" thereto, entered into between the Representatives and Nortel, through their counsel, dated as of June ___, 2006, attached to this Order as Schedule "A";

(jj) "**Settlement**" means the proposed settlement of the **Nortel** I **Actions** pursuant to the terms set forth in the **Settlement Agreement** adopting and ratifying the **Stipulation;**

(kk) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the **Settlement Agreement** as Schedule "A";

(ll) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the Class;

(mm) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs,** or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** and any **Settled Defendants**' **Claims** which any **Nortel I Defendant** does not know or suspect to exist in his, her or its favour, which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement;**

(nn) "U.S. **Action**" means the proceeding in the United States Federal District Court for the Southern District of New York, *In re Nortel Networks Corp. Securities Litigation,* Consolidated Civil Action No. 2001-CV-1855 (RMB), certified as a class action on September 5, 2003;

(oo) "**U.S. Global Class**" means all persons, except **Excluded Persons,** who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period,** and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange andlor the Toronto Stock Exchange. Excluded from this class are any putative class members who previously requested exclusion in response to a notice dated March 10, 2004 that was mailed to members of this class beginning on April 12, 2004 notifying them of the pendency of the **U.S. Action.**

2. **THIS COURT DECLARES** that the Settlement Agreement is fair, reasonable and in the best interests of the Quebec Class.

3. **THIS COURT ORDERS** that the Settlement Agreement attached to this Order as Schedule "A" is hereby approved pursuant to Article 1025 of the *Code of Civil Procedure.*

4. **THIS COURT DECLARES** that the Settlement Agreement is binding upon the Representatives, upon all Quebec Class Members, and upon the Defendant, including those persons who are minors or mentally incapable.

5. **THIS COURT ORDERS** that, upon the Effective Date, the Representatives herein and each of the Quebec Class Members, on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns, are hereby permanently barred and enjoined from instituting, commencing or prosecuting any Settled Claims against the Released Parties.

6. **THIS COURT ORDERS AND DECLARES** that, upon the Effective Date, each of their personal representatives, heirs, executors, administrators, trustees, successors and assigns shall release and shall be conclusively deemed to have fully, finally and forever released the Released Parties from the Settled Claims.

7. **THIS COURT ORDERS** that, upon the Effective Date, each of the Representatives herein and each of the Quebec Class Members and their respective personal representatives, heirs, executors, administrators, trustees, successors and assigns, shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit,

cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date, and are enjoined from doing so.

8. **THIS COURT ORDERS** that, upon the Effective Date, the Defendant Nortel, on behalf of itself and its personal representatives, heirs, executors, administrators, trustees, successors and assigns, is hereby permanently barred and enjoined from prosecuting a Settled Defendants' Claim against any of the Representatives herein, the Quebec National Class Members or Quebec Class Counsel. In the event that any of the Released Parties asserts against the Representatives, any Quebec Class Member or the Quebec Class Counsel any claim that is a Settled Defendants' Claim, then the Representatives, such Quebec Class Member or Quebec Counsel, as the case may be, shall be entitled to use and assert such factual matters included within the Settled Claims only against such Released Party in defence of such claim but not for the purposes of asserting any claim against any Released Party.

9. **THIS COURT ORDERS AND DECLARES** that each Quebec Class Member shall consent and shall be deemed to have consented to the dismissal of any Other Actions he, she or it has commenced against the Released Parties, without costs and with prejudice.

10. **THIS COURT ORDERS** that neither this Order, the Settlement Agreement, the Stipulation, nor any of their terms and provisions, nor any of the negotiations or proceedings connected with it, nor any of the documents or statements referred to therein shall be:

(a) offered or received against the Defendant as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by the Defendant with respect to the truth of any fact alleged in the Quebec Action or the validity of any claim that has been or could have been asserted in the Quebec Action or in any litigation, or the deficiency of any defence that has been or could have been asserted in the Quebec Action or

in any litigation, or of any liability, negligence, fault, or wrongdoing of the Defendant;

(b) offered or received against the Defendant as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by the Defendant;

(c) offered or received against the Defendant as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against the Defendant, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to enforce and give effect to the provisions of the Settlement Agreement (provided, however, that Defendant may refer to it to effectuate the release and liability protection granted them hereunder);

(d) construed against the Defendant as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial; or

(e) construed as or received in evidence as an admission, concession or presumption against Representatives or any of the Quebec Class Members that any of their claims are without merit, or that any defences asserted by the Defendant have any merit, or that damages recoverable under the Quebec Action would not have exceeded the amounts set forth under the Settlement Agreement.

11. **THIS COURT ORDERS** that the Plan of Allocation is approved as fair and reasonable.

12. **THIS COURT ORDERS** that Quebec Class Counsel Fees in the amount of $ _____ in cash, and _____ shares, which includes $ _____ for disbursements, and which amounts this Court finds to be fair and reasonable, are hereby approved.

13. **THIS COURT ORDERS** that the Quebec Class Counsel Fees shall be paid out of the Gross Settlement Fund.

14. **THIS COURT ORDERS** that this Court shall retain jurisdiction over the parties herein, the Quebec Class Members, the Claims Administrator and the Escrow Agent for all matters relating to the Quebec Action, including the administration, interpretation, effectuation or

enforcement of the Settlement Agreement and this Order, and including any application for fees and expenses by the Quebec Class Counsel and the Claims Administrator incurred in overseeing and administering the Settlement, in distributing settlement proceeds to the Quebec Class Members, and in complying with the terms of this Order and the Authorization Order.

15. **THIS COURT ORDERS** that, on notice to the Court but without further order of the Court, the parties to the Settlement Agreement may agree to reasonable extensions of time to carry out any of the provisions of the Settlement Agreement.

16. **THIS COURT ORDERS AND DECLARES** that the Released Parties have no responsibility for and no liability whatsoever with respect to the administration of the Settlement.

17. **THIS COURT RECOGNIZES & ACKNOWLEDGES** that: (i) one of the effects of its determination that the Settlement Agreement is fair is that, pursuant to Section 3(a)(l0) of the United States *Securities Act* of 1933, as amended, 15 U.S.C. § 77c(a)(1), the Gross Settlement Shares may be distributed to Class Members, and to counsel for the plaintiffs in the Nortel I Actions as may be awarded by the respective Courts for counsel fees, without registration and compliance with the prospectus delivery requirements of U.S. securities laws; and (ii) Nortel will rely on such Section 3(a)(10) exemption (and Nortel will not register the Gross Settlement Shares under the United States *Securities Act of 1933*) based on this Court' s approval of the fairness of the Settlement.

18. **THIS COURT DECLARES** that all Quebec Class Members to whom it is proposed to issue Gross Settlement Shares have had the right to appear at the hearing on the fairness of the Settlement Agreement, and that adequate notice of this hearing has been provided to Class Members in accordance with the terms of the Authorization Order.

19. **THIS COURT ORDERS** that if (a) the Settlement Agreement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement Agreement as provided in paragraph 25 of the Stipulation; or (c) is otherwise terminated pursuant to paragraph 27 of the Stipulation, then, in any such event:

(a) this Order (except for paragraphs 1, 10, 14, 16, 17, 18 and 19 herein) shall be set aside, be of no further force or effect, and without prejudice to any party;

(b) the Authorization Order (except for paragraph 24), shall be set aside, of no further force or effect, and without prejudice to any party;

(c) the judgment authorizing the bringing of the class action shall be annulled pursuant to the *Code of Civil Procedure;* and

(d) each party to the Quebec Action shall be restored to his, her or its respective position as it existed immediately prior to the execution of the Settlement Agreement.

20. **THIS COURT ORDERS AND ADJUDGES** that any appeal or challenge, to the extent that any such right exists, affecting the approval of the Plan of Allocation or this Court' s approval of Quebec Counsel Fees shall in no way disturb or affect the balance of this Order and shall be deemed to be separate and apart from the balance of this Order.

21. **THIS COURT ORDERS AND ADJUDGES** that, upon the Effective Date, the Quebec National Action be and is hereby dismissed against the Defendant with prejudice and without costs.

Date J.C.S

EXHIBIT I

No. S015159
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN:

JANIE JEFFERY and RONALD MENSING

Plaintiffs

AND:

NORTEL NETWORKS CORPORATION, JOHN A ROTH, FRANK A. DUNN, F. WILLIAM CONNOR and CHAHRAM BOLOURI

Defendants

Brought under the *Class Proceedings Act*, R.S.B.C. 1996, c.50

ORDER

	) THE HONOURABLE	)	DAY
BEFORE	)	)	THE DAY
	) MR. JUSTICE GROBERMAN	)	OF JUNE, 2006

THE APPLICATION of the Plaintiffs for an Order approving the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement (the "Settlement Agreement") entered into between the Plaintiffs and the Defendant, Nortel Networks Corporation, approving British Columbia Class Counsel Fees and for declaratory relief, coming on for hearing at Vancouver, British Columbia on the ___ day of June 2006 **AND ON HEARING** _____,counsel for the Plaintiff, and on hearing _____ counsel for the Defendants and on hearing _____, counsel for the Defendant _____, **AND ON READING** the materials filed, including the Settlement Agreement attached to this Order as Schedule "A:

1. THIS COURT DECLARES that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**British Columbia Action**" means this proceeding;

(b) "**British Columbia Class**" means all persons and entities, except **Excluded Persons** who, while resident in British Columbia at the time, purchased Nortel

common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(c) "**British Columbia Class Counsel**" means Klein Lyons;

(d) "**British Columbia Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **British Columbia Class Counsel** as approved by this Court in this order;

(e) "**British Columbia Class Member**" means a member of the British Columbia Class who has not opted out of the British Columbia Class in accordance with the Certification Order;

(f) "**Canadian Actions**" means the **Ontario National Action**, the **British Columbia Action** and the **Quebec Action**;

(g) "**Certification Order**" means the Order certifying this action as a class proceeding dated June ___, 2006;

(h) "**Claims Administrator**" means The Garden City Group, Inc.;

(i) "**Class Members**" means the members of the British Columbia Class, the Ontario National Class, the Quebec Class and the U.S. Global Class;

(j) "**Class Period**" means the period of time between October 24, 2000 through February 15, 2001, inclusive;

(k) "**Courts**" means this Court, the Ontario Supreme Court of Justice, the Superior Court of Quebec and the United States Federal District Court for the Southern District of New York;

(l) "**Defendants**" means Nortel and the persons named as defendants in the **British Columbia Action**;

(m) "**Derivative Application**" means the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties;**

(n) "**Effective Date**" means the date upon which the **Settlement** contemplated by the **Settlement Agreement** shall become effective, as provided in paragraph 24 of the **Stipulation**;

(o) "**Escrow Agent**" has the meaning set forth in the **Stipulation**;

(p) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(q) "**Gross Settlement Fund**" has the meaning set forth in the **Stipulation**;

(r) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(s) "**Individuals**" means Clarence Chandran, Frank Dunn and John Andrew Roth;

(t) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(u) "**Nortel I Actions**" means the **Ontario National Action, the British Columbia Action,** the **Quebec Action** and the **U.S. Action**;

(v) "**Nortel I Defendants**" means the Defendants William R. Hawe, Clarence Chandran, and Deloitte & Touche LLP;;

(w) "**Nortel II Actions**" means the following proceedings in Canada and the U.S.:

(i) *Peter Gallardi v. Nortel Networks Corporation et al.*, in the Ontario Superior Court of Justice, Toronto, Court File No. 05-CV-285606 CP;

(ii) *Clifford W. Skarstedt v. Corporation Nortel Networks* in the Superior Court of Quebec, District of Montreal, No: 500-06-000277-059; and

(iii) *In re Nortel Networks Corp. Securities Litigation,* in the United States Federal District Court for the Southern District of New York, Master File No. 05-MD-1659 (LAP);

(x) "**Ontario National Action**" means the proceeding in the Ontario Superior Court of Justice, *Frohlinger v. Nortel Networks Corporation et al.*, Ontario Court File No. 02-CL-4605;

(y) "**Ontario National Class**" means all persons and entities, except Excluded Persons and except members of the **British Columbia Class** and the **Quebec Class**, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period;**

(z) "**Other Actions**" means actions or proceedings, other than the **Proceedings**, relating to Settled Claims commenced by a **British Columbia Class Member** against one or more **Released Parties;**

(aa) "**Plan of Allocation**" means the plan of allocation set forth in the Notice of Certification in Canada and Proposed Settlements of Class Actions, Motion for Attorneys' Fees and Settlement Fairness Hearings and attached as Schedule "B" to this Order;

(bb) "**Proceedings**" means the **Ontario National Action,** the **Quebec Action,** the **British Columbia Action, the U.S. Action** and the **Nortel II Actions**;

(cc) "**Quebec Action**" means the proceeding in the Superior Court of Quebec (District of Montreal), *Association de Protection des Epargnants et Investisseurs du Quebec v. Corporation Nortel Networks,* No: 500-06-000126-017;

(dd) "**Quebec Class**" means all persons, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) Nortel put options on Nortel common stock during the **Class Period;**

(ee) "**Released Parties**" means any and all of the **Nortel I Defendants,** their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel I Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel I Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel I Defendants**;

(ff) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Canadian Actions** and the **U.S. Action;**

(gg) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims,** (i) that have been asserted in any of the **Nortel I Actions** against any of the **Released Parties,** or (ii) that could have been asserted in any forum by **the Class Members** in the **Nortel I Actions,** or any of them, against any of the **Released Parties,** that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel I Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class**

Period or (iii) any oppression or other claims under the *Business Corporations Act,* R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel I Actions.** "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, *et seq*. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation,* MDL Docket No. 1537. Settled Claims also does not include: (a) the action in *Rohac et al v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the **Derivative Application;**

(hh) "**Settled Defendants' Claims**" means any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, provincial, local, statutory or common law or any other law, rule or regulation, including both known claims and **Unknown Claims,** that have been or could have been asserted in the **Nortel I Actions** or any forum by the **Nortel I Defendants** or any of them or the successors and assigns or any of them against the **Representative Plaintiffs,** any **Class Member,** or their counsel, and that arise out of or relate in any way to the institution, prosecution, or settlement of the **Nortel I Actions** (except Settled Defendants' Claims does not include all claims, rights or causes of action or liabilities whatsoever related to the enforcement of the **Settlement** including, without limitation, any of the terms of the **Stipulation** or orders or judgment issued by the **Courts** in connection with the **Settlement**, confidentiality obligations or in respect of the **Derivative Application**);

(ii) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached as Schedule "A" thereto, entered into between the Plaintiffs herein and Nortel, through their counsel, dated as of June 20, 2006, attached to this Order as Schedule "A";

(jj) "**Settlement**" means the proposed settlement of the **Nortel I Actions** pursuant to the terms set forth in the **Stipulation;**

(kk) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the **Settlement Agreement** as Schedule "A";

(ll) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(mm) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs,** or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** and any **Settled Defendants**' **Claims** which any **Nortel I Defendant** does not know or suspect to exist in his, her or its favour, which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(nn) "**U.S. Action**" means the proceeding in the United States Federal District Court for the Southern District of New York, in re Nortel Networks Corp. Securities Litigation, Consolidated Civil Action No. 0I-CV-1855 (RMB), certified as a class action on September 5, 2003; and

(oo) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from this class are any putative class members who previously requested exclusion in response to a notice dated March 10, 2004 that was mailed to members of this class beginning on April 12, 2004 notifying them of the pendency of the **U.S. Action.**

2. **THIS COURT DECLARES** that the Settlement Agreement is fair, reasonable and in the best interests of the British Columbia Class.

3. **THIS COURT ORDERS** that the Settlement Agreement attached to this Order as Schedule "A" is hereby approved pursuant to s. 35 of the *Class Proceedings Act, RSBC 1996, c.50.*

4. **THIS COURT DECLARES** that the Settlement Agreement is binding upon the representative Plaintiffs, upon all British Columbia Class Members, and upon the Defendants, including those persons who are miners or mentally incapable and that the requirements of Rule 6 of the *Rules of Court* are dispensed with in respect of the British Columbia Action.

5. **THIS COURT ORDERS** that, upon the Effective Date, the representative Plaintiffs herein and each of the British Columbia Class Members, on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns,

are hereby permanently barred and enjoined from instituting, commencing or prosecuting any Settled Claims against the Released Parties.

6. **THIS COURT ORDERS AND DECLARES** that, upon the Effective Date, each of the representative Plaintiffs and each of the British Columbia Class Members, on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns shall release and shall be conclusively deemed to have fully, finally and forever released the Released Parties from the Settled Claims.

7. **THIS COURT ORDERS** that, upon the Effective Date, each of the representative Plaintiffs and each of the British Columbia Class Members and their respective personal representatives, heirs, executors, administrators, trustees, successors and assigns, shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit, cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date, and are enjoined from doing so.

8. **THIS COURT ORDERS** that, upon the Effective Date, the defendants, Nortel, Chahram Bolouri, F. William Conner and John Roth on behalf of themselves and their personal representatives, heirs, executors, administrators, trustees, successors and assigns, are hereby permanently barred and enjoined from prosecuting a Settled Defendants' Claim against the Plaintiffs herein, the British Columbia Class Members or British Columbia Class Counsel. In the event that any of the Released Parties asserts against the Plaintiffs, any British Columbia Class Member or the British Columbia Class Counsel any claim that is a Settled Defendants' Claim, then the Plaintiffs, such British Columbia Class Member or British Columbia Counsel, as the case may be, shall be entitled to use and assert such factual matters included within the Settled Claims only against such Released Party in defence of such claim but not for the purposes of asserting any claim against any Released Party.

9. **THIS COURT ORDERS AND DECLARES** that each British Columbia Class Member shall consent and shall be deemed to have consented to the dismissal of any Other Actions he, she or it has commenced against the Released Parties, without costs and with prejudice.

10. **THIS COURT ORDERS** that neither this Order, the Settlement Agreement, the Stipulation, nor any of their terms and provisions, nor any of the negotiations or proceedings connected with it, nor any of the documents or statements referred to therein shall be:

(a) offered or received against the Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of the Defendants with respect to the truth of any fact alleged in the Statement of Claim or the validity of any claim that has been or could have been asserted in the British Columbia Action or in any litigation, or the deficiency of any defence that has been or could have been asserted in the British Columbia Action or in any litigation, or of any liability, negligence, fault, or wrongdoing of the Defendants;

(b) offered or received against the Defendants as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant;

(c) offered or received against the Defendants as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against any of the Defendants, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to enforce and give effect to the provisions of the Settlement Agreement (provided, however, that Defendants may refer to it to effectuate the release and liability protection granted them hereunder);

(d) construed against the Defendants as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial; or

(e) construed as or received in evidence as an admission, concession or presumption against the representative Plaintiffs or any of the British Columbia Class Members that any of their claims are without merit, or that any defences asserted by the Defendants have any merit, or that damages recoverable under the Statement of Claim would not have exceeded the amounts set forth under the Settlement Agreement.

11. **THIS COURT ORDERS** that the Plan of Allocation is approved as fair and reasonable.

12. **THIS COURT ORDERS** that British Columbia Class Counsel Fees in the amount of $_____ in cash, and _____ shares, which includes $_____ for disbursements and which amounts this Court finds to be fair and reasonable, are hereby approved.

13. **THIS COURT ORDERS** that the British Columbia Class Counsel Fees shall be paid out of the Gross Settlement Fund.

14. **THIS COURT ORDERS** that this Court shall retain jurisdiction over the parties herein, the British Columbia Class Members, the Claims Administrator and the Escrow Agent for all matters relating to the British Columbia Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order, and including any application for fees and expenses by the British Columbia Class Counsel and the Claims Administrator incurred in overseeing and administering the Settlement in distributing settlement proceeds to the British Columbia Class Members and in complying with the terms of this Order and the Certification Order.

15. **THIS COURT ORDERS** that on notice to the Court but without further order of the Court, the parties to the Settlement Agreement may agree to reasonable extensions of time to carry out any of the provisions of the Settlement Agreement.

16. **THIS COURT ORDERS AND DECLARES** that the Released Parties have no responsibility for and no liability whatsoever with respect to the administration of the Settlement.

17. **THIS COURT RECOGNIZES & ACKNOWLEDGES** that: (i) one of the effects of its determination that the Settlement Agreement is fair is that, pursuant to Section 3(a)(10) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. ~ 77c(a)(l), the Gross Settlement Shares may be distributed to Class Members, and to counsel for the plaintiffs in the Nortel I Actions as may be awarded by the respective Courts, without registration and compliance with the prospectus delivery requirements of U.S. securities laws; and (ii) Nortel will rely on such Section 3(a)(10) exemption (and Nortel will not register the

Gross Settlement Shares under the United States *Securities Act of 1933*) based on this Court' s approval of the fairness of the Settlement.

18. **THIS COURT DECLARES** that all British Columbia Class Members to whom it is proposed to issue Gross Settlement Shares have had the right to appear at the hearing on the fairness of the Settlement Agreement, and that adequate notice of this hearing has been provided to British Columbia Class Members in accordance with the terms of the Certification Order.

19. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 of the Stipulation; or (c) is otherwise terminated pursuant to paragraph 27 of the Stipulation, then, in any such event:

(a) this Order (except for paragraphs 1, 10, 14, 16, 17, 18 and 19 herein) shall be set aside, be of no further force or effect, and be without prejudice to any party;

(b) the Certification Order (except for paragraph 24), shall be set aside and be of no further force or effect, and be without prejudice to any party;

(c) the British Columbia Action shall be immediately decertified as a class proceeding pursuant to Section 10 of the *Class Proceedings Act, RSBC 1996, c.50* without prejudice to the Plaintiffs' ability to reapply for certification;

(d) each party to the British Columbia Action shall be restored to his, her or its respective position as it existed immediately prior to the execution of the Settlement Agreement.

20. **THIS COURT ORDERS AND ADJUDGES** that any appeal or challenge affecting the approval of the Plan of Allocation or this Court' s approval of British Columbia Class Counsel fees shall in no way disturb or affect the balance of this Order and shall be deemed to be separate and apart from the balance of this Order.

21. **THIS COURT ORDERS AND ADJUDGES** that, upon the Effective Date, the British Columbia Action be and is hereby dismissed against the Defendants with prejudice and without costs.

BY THE COURT

DEPUTY DISTRICT REGISTRAR

Approved as to form:

Solicitor for the Plaintiffs

Solicitor for the Defendants
Nortel Networks Corporation,
John A. Roth, F. William Conner
and Chahram Bolouri

Solicitor for the Defendant, Frank Dunn

No. S015159
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN**:**

JANIE JEFFERY and RONALD MENSING

Plaintiffs

AND:

NORTEL NETWORKS CORPORATION, JOHN A ROTH, FRANK A. DUNN, F. WILLIAM CONNOR and CHAHRAM BOLOURI

Defendants

ORDER

EXHIBIT J

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE NORTEL NETWORKS CORP. SECURITIES LITIGATION,	:	Consolidated Civil Action No.: 2001-CV-1855 (RMB)
THIS DOCUMENT RELATES TO ALL ACTIONS	:	

NOTICE OF PENDENCY OF CLASS ACTION

TO: THIS NOTICE IS SENT PURSUANT TO RULE 23 OF THE FEDERAL RULES OF CIVIL PROCEDURE AND AN ORDER OF THE-UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK (THE "COURT"), DATED SEPTEMBER 5, 2003. THE PURPOSE OF THIS NOTICE 'IS TO INFORM YOU OF (i). THE PENDENCY OF THE ABOVE-CAPTIONED CLASS ACTION (THE "ACTION"); (ii) THE CERTIFICATION OF THE CLASS. DESCRIBED HEREIN, OF. WHICH YOU MAY BE A MEMBER ("CLASS MEMBER"); AND (iii) YOUR RIGHT TO BE EXCLUDED FROM THE CLASS.

DEFINITION OF THE CLASS

1. On September 5, 2003, the Court entered an order certifying this case as a class action and defining the class as follows:

All persons or entities who, during the period October 24, 2000 and continuing through and including February 15, 2001 (the "Class Period"), purchased Nortel Networks Corporation ("Nortel" or the "Company") common stock or call options or sold Nortel put options (collectively, "Nortel Securities"), and who suffered damages thereby (the "Class"), including, but not limited to, those persons who traded In Nortel Securities on the New York Stock Exchange and/or the. Toronto Stock Exchange. Excluded from the Class are Defendants, members of any of the Individual Defendants' immediate families, any entity in Which any Defendant has a controlling interest is a parent or subsidiary of or is controlled by the Company, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the Defendants.

This Notice is given to you in the belief that you may be a member of the Class. To be a Class Member, you must meet all of the criteria listed above. If you do not meet the Class definition, the Notice does not apply to you. If you are uncertain whether you are a Class Member, contact Counsel for the Class (who is listed in paragraph 8 below) or your own attorney. Class Members may be entitled to recover damages on the claims asserted. This Notice, however, is not intended to suggest any likelihood that Plaintiffs or members of the Class will be entitled to recover such damages.

BACKGROUND OF THE LITIGATION

2.a. Commencing in February of 2001, numerous securities class actions were instituted on behalf of purchasers of common stock or call options and sellers of Nortel put options during the period from October 24, 2000 and continuing through and including February 15, 2001, alleging violations of U.S. federal securities laws. These lawsuits were consolidated for all purposes by Court Order filed October 16, 2001.

b. Plaintiff, Trustees of the Ontario Public Service Employees' Union Pension Plan Trust Fund (the "Lead Plaintiff" or "OPTrust"), was designated Lead Plaintiff by Memorandum and Order of the Court dated January 10, 2002.

c. By order of the Court dated February 1, 2002, Milberg Weiss Bershad Hynes and Lerach LLP, was appointed as sole Lead Counsel for the Class.

d. On January 18, 2002, the Lead Plaintiff filed a Second Consolidated Amended Class Action Complaint, the operative complaint herein (the "Complaint"), against Nortel as well as against John Andrew Roth, Clarence Chandran and Frank A. Dunn (collectively, the "Individual Defendants") (together with Nortel, the "Defendants"). The Complaint was

filed by the Lead Plaintiff on behalf of a proposed Class consisting of all persons or entities who, during the Class Period, purchased Nortel common stock or call options or sold Nortel put options, and who suffered damages thereby, including, but not limited to, those persons who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. The Complaint alleges, *inter alia*, that the Company and the Individual Defendants, who were officers and/or directors of Nortel, made materially false and misleading statements and omissions in Nortel' s financial reports, in violation of United States Generally Accepted Accounting Principles ("GAAP"), and in other public documents disseminated to the investing public, thereby artificially inflating the price of the securities of Nortel and damaging members of the Class.

e. The Complaint alleges that, during the Class Period, Defendants materially misrepresented the Company' s revenues and earnings and the value of the Company' s receivables in public reports and statements disseminated to the investing public. It is further alleged that these misrepresentations resulted in the Company' s issuance of financial statements, and other public statements regarding Nortel' s future business prospects, in violation of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. § 78j(b), Rule 10b-5 promulgated thereunder, 17 C.F.R. § 240.10b-5, and Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a). The Complaint further alleges that, as a result of Defendants' materially false and misleading statements, Nortel' s common shares were artificially inflated during the Class Period, thereby causing damage to members of the Class who purchased Nortel common stock or call options or sold Nortel put options during that period.

f. Defendants filed a motion to dismiss the Complaint on August 15, 2002. By Memorandum and Order dated January 3, 2003, the Court denied Defendants' motion to dismiss the Complaint.

g. On January 1, 2002, Defendants answered the Complaint. Defendants deny that they violated any laws or did anything wrong. They believe that their actions were proper under the federal securities laws and they assert several affirmative defenses.

h. On March 21, 2003, the Lead Plaintiff made a motion to certify the Class as described above. By Order dated September 5, 2003, the Court certified the Class as described above and OPTrust as Class Representative.

i. Lead Counsel is engaged in extensive document and deposition discovery with Defendants and third parties. Under the current Court-ordered schedule, merits discovery (including depositions) will be completed by May 28, 2004.

j. This Notice is given to you in the belief that you may be a member of the Class whose rights may be affected by this Action. This Notice is an admission by Defendants or an expression of any opinion by the Court concerning the merits of the Action or a finding by the Court that the claims asserted by Plaintiffs in this case are valid; or that there has been any wrongdoing or violation of law by Defendants. There is no assurance that a judgment in favor of the Class will be granted. This Notice is intended merely to advise you of the pendency of this Action and of your rights with respect to the Action, including the right to remain a Class Member or to exclude yourself from the Class. **YOU NEED NOT TAKE ANY ACTION TO BE OR REMAIN A MEMBER OF THE CLASS**.

RIGHTS IF YOU REMAIN A CLASS MEMBER

3. IF YOU WISH TO REMAIN A CLASS MEMBER, YOU ARE NOT REQUIRED TO DO ANYTHING AT THIS TIME. If you remain a Class Member, you will be bound by any judgment in this Action, whether it is favorable or unfavorable. If there is a recovery, you may be entitled to share in the proceeds, less such costs, expenses and attorney' s fees as the Court may allow outs of any such recovery. If the Defendants prevail, you may not pursue a lawsuit on your own with regard to any of the issues decided in this Action.

4. In the event of a recovery, you will be required to prove your membership in the Class, your purchase of Nortel common stock or call options, or your sale of Nortel put options, and your damages, if any.

TO BE EXCLUDED FROM THE CLASS

5. If you wish to exclude yourself from the Class and not be a part of this class action litigation, you must make a request in writing. In order to be valid, each such request for exclusion must set forth the name and address of the person or entity requesting exclusion, must state that such person or entity requests exclusion from the Class in In re Nortel Networks Corp. Securities Litigation, Case No. 01-CV-1855 (RMB), and must be signed by such person or entity. Requests for Exclusion must be mailed to the address provided in paragraph 10 below. For it to be effective, your Request for Exclusion must be postmarked no later than June 14, 2004. Do not request exclusion if you wish to participate in this Action against the Defendants as a Class Member.

If you exclude yourself from the Class, you will not be bound by any judgment in this Action against the Defendants, nor will you be entitled to share, in any recovery in this Action against the Defendants, should any recovery be obtained, but you may individually pursue any legal rights you may have against the Defendants.

If you do not exclude yourself from the Class, you. will be bound by any judgment in this Action and you will not be entitled to share in the recoveries of any other class action involving similar factual allegations that has been filed against Nortel or any of the Individual Defendants and you may not individually pursue such an action against any of the Defendants.

SPECIAL NOTICE TO CANADIAN RESIDENTS

6. Nortel is currently a defendant/respondent. in separate proposed class .proceedings in three different .provinces In Canada, each governed by Canadian law. Nortel is a defendant in two actions commenced in Ontario and British Columbia, respectively, which propose certification of the actions as class proceedings, and is also a respondent to a motion for authorization to institute a class action in Quebec.
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The Ontario action (*Law et al. v. Nortel Networks Corp. et al.*, Ontario Superior Court of Justice Commercial List, Court File No. 02.Cl-4605 (the "Ontario Action")) was commenced on July 17; 2002 against Nortel, John Andrew Roth, Frank Dunn, F. William Conner, Chahram Bolouri and William Howe (collectively, the "Nortel Ontario Defendants"), as well as Deloitte & Touche LLP. The plaintiffs seek to have the Ontario Action certified as a class action on behalf of (subject to certain exclusions) all persons resident in Canada who purchased Nortel securities (including certain options on Nortel securities) during the period of October 24, 2000 through February 15, 2001 and who suffered a realized or unrealized capital loss as of February 15, 2001 as a consequence. The Statement of Claim alleges negligence, negligent and reckless misrepresentation, oppression, selective disclosure and breaches of the *Securities Act* (Ontario) and the *Competition Act* (Canada). The plaintiffs further allege insider trading as against certain of the individual Nortel Ontario Defendants. In general, the Ontario Action alleges that in various public statements made prior to February 15, 2001, the Nortel Ontario Defendants misrepresented sales revenue, net income and cash flow for the 2000 fiscal year and that Nortel would meet its revenue and earnings projections for 2000, the first quarter of 2001 and for 2001. The Ontario Action further alleges that Nortel engaged in a number of improper accounting practices in violation of GAAP to increase revenues and earnings artificially in 2000 and 2001.

The British Columbia action was commenced on September 17, 2001 (*Jeffery et al. v. Nortel Networks Corp. et al.*, Supreme Court of British Columbia, No. S015159 Vancouver Registry) (the "British Columbia Action")) against Nortel, John A. Roth, Frank A. Dunn, F. William Conner and Chahram Bolouri (the "Nortel B.C. Defendants"). The plaintiffs, seek to have the British Columbia Action certified as a class action on behalf of (subject to certain exclusions) all persons who acquired Nortel shares during the period of November 1, 2000 through February 15, 2001. The plaintiffs allege negligent misrepresentation against the Nortel B.C. Defendants and generally allege that Nortel' s guidance regarding revenue and earnings for Nortel' s fourth quarter and fiscal 2000, and for the first quarter and fiscal year 2001, was materially false and misleading.

The motion filed in Quebec on February 22, 2001 (*Association de Protection des Épargnants et Investisseurs du Québec v. Nortel Networks, Corp.*, Superior Court, District of Montreal No.: 500-06-000126-017) (the "Québec Proceeding")) seeks leave to commence a class action on behalf of (subject to certain exclusions) every person who purchased or otherwise acquired shares Nortel during the period of January 19, 2001 through February 15, 2001, and who were still holding those shares as of February 15, 2001 and who suffered a loss or damage as a result thereof. The petitioner alleges that Nortel' s guidance regarding its first quarter of fiscal year 2001 was misleading, that it should have informed the public and its shareholders that it was unable to meet its financial projections, and that by not doing so, Nortel breached its legal obligations as set out in the Securities Acts of Québec and Ontario as well as in the Québec Civil Code.

Hearings have not yet taken place to determine whether the Ontario Action and British Columbia Action will be certified as class actions or whether leave will be granted in the Québec Proceeding to institute a class action. Nortel and the Individual Defendants intend to oppose certification of each of these proceedings. Discovery has not yet proceeded in any of these three Canadian proceedings.

Contact information for the plaintiffs' legal counsel in each of the three Canadian proceedings can be obtained through Lead Counsel in this Action listed in paragraph 8 below.

7. IF YOU DO NOT REQUEST EXCLUSION FROM THE CLASS IN THIS ACTION BY JUNE 14, 2004, YOU WILL BE CONSIDERED A CLASS MEMBER OF THE ACTION AND COURT WILL CONSIDER YOU BOUND BY ANY FINAL JUDGMENT IN THE ACTION, WHICH WILL BE DECIDED ON THE BASIS OF U.S. LAW RATHER THAN CANADIAN LAW. FURTHERMORE, IF YOU DO NOT EXCLUDE YOURSELF FROM THE CLASS IN THIS ACTION,

NORTEL WILL TAKE THE POSITION IN ANY EXISTING OR FUTURE CANADIAN PROCEEDINGS THAT YOU ARE EXCLUDED FROM PARTICIPATING IN ANY CANADIAN CLASS PROCEEDINGS.

8. If you do not request exclusion from the Class in the manner set forth above, you will be represented by the Court-appointed Lead Plaintiff and Lead Counsel for the Class. Lead Counsel for the Class is:

MILBERG WEISS BERSHAD HYNES & LERACH LLP
Steven G. Schulman, Esq.
Daniel B. Scotts, Esq.
One Pennsylvania Plaza
New York New York 10119-0165
(800) 320-5081

Please do not contact the Lead Plaintiff directly; questions should be addressed to Lead Counsel.

9. If you remain a Class Member, you will not be personally responsible for Plaintiffs' attorneys' fees or costs. Any fees or expenses ultimately allowed by the Court to Plaintiffs' counsel will be payable out of the recovery in the Action, if any.

SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES,

10. If you purchased common stock of Nortel, or purchased Nortel call options, or sold Nortel put options, during the period from October 24, 2000 through and Including February 15, 2001 for the beneficial interest of a person or entity other than yourself, the Court has requested that, within fourteen (14) days of your receipt of this Notice, you either (a) provide to the Notice Administrator identified below the name and last known address of each person or entity for whom or which you purchased such stock during such time period or (b) request additional copies of this Notice, which will be provided to you free of charge, and within ten (10) days mail the Notice directly to the beneficial owners of the securities referred to herein. If you choose to follow alternative procedure (b), the Court has requested that, upon such mailing, you send a statement to the Notice Administrator confirming that the mailing was made as directed. You are entitled to reimbursement of your reasonable expenses actually incurred in connection with the foregoing, including reimbursement of reasonable postage expenses and the reasonable costs of ascertaining the names and addresses of beneficial. owners, Those reasonable expenses and costs will be paid upon request and submission of appropriate supporting documentation. All communications concerning the foregoing should be addressed to the Notice Administrator:

Nortel Securities Litigation
c/o The Garden City Group, Inc.
Notice Administrator
P.O. Box 9000 #6169
Merrick, NY 11566-9000
1-866-808-3538

If this Notice was sent to you at your current address, you do not have to do anything further to receive further notices concerning this Action. If it was forwarded by the postal service, or if it was otherwise sent to you at an address that is not current, you should immediately contact the Notice Administrator referred to above in this paragraph.

AVAILABILITY OF FILED PAPERS

11. This Notice does not fully describe all of the claims and contentions of the parties. The pleadings and other papers filed in this Action are available for inspection, during business hours, at the Office of the Clerk of the Court, United States District Court for the Southern District of New York. In addition, you may obtain a copy of the Complaint by contacting the above listed Plaintiffs' counsel.

12. If you have any questions about this Notice, you may consult an attorney of your own choosing, or plaintiffs' counsel whose name, address and telephone number are listed in paragraph 8 above. **DO NOT ADDRESS ANY QUESTIONS ABOUT THE CASE TO THE CLERK OF THE COURT OR TO THE JUDGE**. They are not permitted to answer your questions.

13. This notice does not indicate any expression of opinion by the Court concerning the merits of any of the claims or defenses asserted by or against the parties in this Action or in any other action discussed herein. This notice is merely to advise you of the pendency of this Action.

Dated; March 10, 2004

BY ORDER OF THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF
NEW YORK

Confidential Portions in Exhibit C omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

In re NORTEL NETWORKS CORP. SECURITIES LITIGATION	:	Civil Action No. 05-MD-1659 (LAP)
	:	CLASS ACTION
This Document Relates To:	:	
ALL ACTIONS.	:	

STIPULATION AND AGREEMENT OF SETTLEMENT (NORTEL II)

This Stipulation and Agreement of Settlement (the "Stipulation") is submitted in the above-captioned *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP) (the "Nortel II U.S. Action"), pursuant to Rule 23 of the Federal Rules of Civil Procedure. Subject to the approval of the United States District Court for the Southern District of New York, this Stipulation is entered into among Lead Plaintiffs and Class Representatives Ontario Teachers' Pension Plan Board and the Department of the Treasury of the State of New Jersey and its Division of Investment (hereinafter "Lead Plaintiffs") on behalf of themselves and the U.S. Global Class (as defined herein), and defendant Nortel Networks Corporation ("Nortel"), by and through their respective counsel.

The following separate class actions in Ontario and Quebec, raising claims on behalf of persons who purchased Nortel Securities (as defined herein), are also being settled contemporaneously as part of a single settlement of those actions and the Nortel II U.S. Action on the terms herein: *Skarstedt v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No: 500-06-000277-059 (the "Quebec Skarstedt Action") and *Gallardi v.*

Norte? Networks Corporation et al., Court File No. 05-CV-285606CP (Ont. Sup.Ct. J.) (the "Ontario Gallardi Action") (collectively, the "Nortel II Canadian Actions").

A separate class action brought on behalf of persons who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock from October 24, 2000 through February 15, 2001, inclusive (the "Nortel I Class Period"), captioned *In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01 Civ. 1855 (RMB) (the "Nortel I U.S. Action") is also pending in the United States District Court for the Southern District of New York, and is being settled contemporaneously herewith.

Also being settled contemporaneously herewith are the following separate class actions brought in British Columbia, Ontario and Quebec, as part of a single settlement including the Nortel I U.S. Action: *Jeffery, et al., v. Nortel Networks Corp., et al.*, Supreme Court of British Columbia, Vancouver Registry, File No. S015159 (the "B.C. Jeffery Action"); *Frohlinger v. Norte/ Networks Corp., et al.*, Ontario Superior Court of Justice, Court File No. 02-CL-4605 (the "Ontario Frohlinger Action"); and *Association de Protection des Epargnants et Investisseurs du Quebec v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No: 500-06-000 126-017 (the "Quebec A.P.E.I.Q. Action") (collectively, the "Nortel I Canadian Actions").

It is a condition to the Settlement (as defined herein) that the Nortel II U.S. Action and the Norte] II Canadian Actions (collectively, the "Nortel II Actions"), as well as the Nortel I U.S. Action and the Nortel I Canadian Actions (collectively, the "Nortel I Actions") be settled contemporaneously and that the Settlement and the settlement of the Norte? I Actions be approved by all of the respective courts.

WHEREAS:

A. Beginning on March 17, 2004, several putative class actions on behalf of persons who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive, were filed against Nortel and Frank Dunn, Douglas C. Beatty, Michael J. Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr., (the "Individual Defendants") alleging violations of Sections 10(b) and 20(a) of the (United States) Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder, and subsequently consolidated by order of the United States District Court for the Southern District of New York, entered June 30, 2004, under the caption *In re Nortel Networks Corp. Securities Litigation*, Master File No. 04 Civ. 2115 (LAP);

B. On September 10, 2004, Lead Plaintiffs filed a Consolidated Class Action Complaint (the "Complaint"), which alleged that Nortel, with the participation of the Individual Defendants, perpetrated a fraud on the investing public by improperly accounting for Nortel' s reserve accounts, reversing millions of dollars into income to make the market believe that Nortel had returned to profitability, when, in fact, it had not. On November 5, 2004, certain Defendants moved to dismiss the Complaint. On December 3, 2004, Lead Plaintiffs filed their memorandum of law opposing the motions to dismiss. On December 23, 2004, certain Defendants filed their reply papers in further support of the motions to dismiss. On January 19, 2005, Lead Plaintiffs and Defendants entered into a stipulation whereby Defendants would withdraw their motions to dismiss, Lead Plaintiffs would withdraw their previously-filed motion to lift the discovery stay implemented by the (United States) Private Securities Litigation Reform

Act, Lead Plaintiffs would drop the Audit Committee Defendants (herein defined) from the Complaint, and the parties would commence discovery;

C. Lead Plaintiffs filed their Second Amended Consolidated Class Action Complaint (the "Second Amended Complaint") on September 16, 2005. The Second Amended Complaint alleged that the members of the Audit Committee of Nortel' s Board of Directors (the "Audit Committee Defendants") violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by issuing materially false and misleading statements during the Class Period in a scheme to artificially inflate the value of Nortel publicly-traded securities. Specifically, Lead Plaintiffs alleged that the Audit Committee Defendants disregarded the warning provided to them by Nortel' s auditors, Deloitte & Touche LLP ("Deloitte"), that Nortel was reversing hundreds of millions of dollars of reserves into income at the same time that Nortel' s projected losses turned into profits, and that the Audit Committee Defendants ignored Deloitte' s recommendation that Nortel institute a rigorous review of Nortel' s remaining balance sheet provisions, choosing instead to approve numerous financial disclosures reporting positive earnings results and a premature restatement that deceived investors as to Nortel' s true financial condition;

D. Pursuant to a stipulation entered into in January 2005 between Nortel and Lead Plaintiffs, Nortel waived its right to move to dismiss the Second Amended Complaint. As a result of the pending settlement negotiations, the parties agreed to extend the dates for defendants Dunn and Gollogly to answer the First Amended Complaint, the dates for Nortel, Dunn and Gollogly to answer the Second Amended Complaint and the date by which the Audit Committee Defendants had to move to dismiss or answer the Second Amended Complaint;

E. Lead Plaintiffs filed their motion for class certification on May 13, 2005. As a result of the pending settlement negotiations, the parties agreed to extend the dates for Defendants to oppose the class certification motion. As part of this Settlement, the Defendants to the Nortel II U.S. Action will stipulate to a class, as follows: all persons and entities who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the period between April 24, 2003 through April 27, 2004, inclusive (the "Class Period"), and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. The parties to the Nortel II U.S. Action will seek an Order under Rule 23 of the Federal Rules of Civil Procedure certifying the class for settlement purposes;

F. On March 9, 2005, the Ontario Gallardi Action was commenced in the Ontario Superior Court of Justice against Nortel, the Individual Defendants and Deloitte through the issuance of a Statement of Claim. The claim alleges that the defendants were liable for misrepresenting Nortel' s true financial situation by creating improper cash reserves and issuing false reports and financial statements that artificially inflated Nortel' s earnings and the price of Nortel securities during the Class Period. It also alleges that Nortel' s top executives used these reserves to trigger bonus payments that were payable in the event of Nortel' s return to profitability. The claim further alleges that Nortel and certain of its officers breached corporate and securities legislation, including the *Canada Business Corporations Act*, the Ontario *Securities Act* and the *Canadian Competition Act*;

G. The plaintiff in the Ontario Gallardi Action filed with the Ontario Superior Court of Justice and delivered to the defendants in November 2005 their motion for certification.

Counsel in the Ontario Gallardi Action have attended a number of case conferences before the Honourable Justice Winkler as the proceeding moved towards a certification hearing;

H. On February 18, 2005, the Quebec Skarstedt Action was commenced in the Superior Court of Quebec against Nortel through the issuance of a Motion for Authorization to Institute a Class Action. The claim alleges that Nortel intentionally misrepresented its financial results for the fiscal year 2003. At a preparatory conference held on May 19, 2005, the hearing of the Motion for Authorization was scheduled for January 4 to 10, 2006. At that preparatory conference, Nortel indicated its intention to file a Motion to Dismiss the Petitioner' s Motion for Authorization to Institute a Class Action on the basis that the factual allegations lacked a substantial connection to Quebec. A further preparatory conference was held on October 6, 2005, at which time Nortel agreed to serve its Motion to Dismiss by November 11, 2005. It was also decided that the Motion to Dismiss should be heard before the Motion for Authorization and thus, the hearing of the Motion for Authorization was postponed. The hearing of the Motion to Dismiss was scheduled for April 10 and 11, 2006, but was adjourned following the announcement of the settlement agreement in principle in February 2006;

I. Following the announcement of the settlement agreement in principle in February 2006 to settle the Nortel II Actions and the Nortel I Actions as part of a global settlement, Lead Plaintiffs Counsel and Nortel' s Counsel have worked with plaintiffs' counsel in the Nortel I Actions and the Nortel II Canadian Actions to coordinate the settlement process to obtain approvals of the global settlement by the United States District Court for the Southern District of New York and by the applicable Canadian courts, and plaintiffs' counsel in the Nortel I Actions and Nortel II Canadian Actions have been consulted and participated in the drafting of this Stipulation and other settlement documents;

J. Defendants in the Nortel II Actions deny any wrongdoing whatsoever, and this Stipulation shall in no event be construed or deemed to be evidence of or an admission or concession on the part of any defendant with respect to any claim of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that the defendants have asserted;

K. The parties to this Stipulation recognize that the Nortel II U.S. Action has been filed by the Lead Plaintiffs and defended by the Defendants in good faith, that the Nortel II U.S. Action is being voluntarily settled after advice of counsel, and that the terms of the Settlement are fair, reasonable and adequate. This Stipulation shall not be construed or deemed to be a concession by Lead Plaintiffs or any Class Member of any infirmity in the claims asserted in the Nortel II U.S. Action or any other action;

L. Lead Plaintiffs' Counsel have conducted investigations relating to the claims and the underlying events and transactions alleged in the Nortel II U.S. Action. Lead Plaintiffs' Counsel have analyzed the evidence adduced during pretrial discovery and have researched the applicable law with respect to the claims of the Lead Plaintiffs and the U.S. Global Class against the Defendants and the potential defenses thereto;

M. The parties recognize that the claims asserted in either of the Nortel II Actions or the Nortel I Actions, if proved by the plaintiffs in those actions, could have exposed Nortel to substantial damages awards. Accordingly, the parties considered that a resolution of the Nortel II Actions and the Nortel I Actions was advisable from the point of view of all parties;

N. With the assistance of the Honorable Robert W. Sweet, United States District Court Judge, acting as a special mediator, the Lead Plaintiffs in the Nortel II U.S. Action and the Lead Plaintiff in the Nortel I U.S. Action, directly and by their counsel, have conducted

discussions and arm' s-length negotiations with Nortel' s Counsel with respect to a global compromise and settlement of the Nortel I Actions and the Nortel II Actions and with a view to settling the issues in dispute and achieving the best relief possible consistent with the interests of the overall classes in the Nortel II Actions and the Nortel I Actions;

O. Nortel considers that, in order for it to achieve an end to litigation, it is a necessary condition to the settlement of the Nortel II U.S. Actions that as part of the Settlement the applicable Canadian Courts approve the Settlement with respect to the Nortel II Canadian Actions and that the Settlement be similarly conditional on the approval of the separate settlement reached with respect to the Nortel I Actions;

P. Based upon their investigation and pretrial discovery as set forth above, Lead Plaintiffs and their counsel have concluded that the terms and conditions of this Stipulation are fair, reasonable and adequate to Lead Plaintiffs and the U.S. Global Class, and are in their best interests, and Lead Plaintiffs have agreed to settle the claims raised in the Nortel II U.S. Action pursuant to the terms and provisions of this Stipulation, after considering (a) the substantial benefits that the members of the U.S. Global Class will receive from settlement of the Nortel 11 U.S. Action, (b) the attendant risks of litigation, and (c) the desirability of permitting the Settlement to be consummated as provided by the terms of this Stipulation; and

Q. Unless Nortel registers the Gross Settlement Shares (as defined herein), Nortel will issue the Gross Settlement Shares in reliance on the exemption from registration under the (United States) Securities Act of 1933, 15 U.S.C. §77c(a)(1), as amended, pursuant to Section 3(a)(l 0) thereunder based on the Courts' approval of the fairness of the terms and conditions of the Settlement following a fairness hearing open to everyone to whom any Gross Settlement Shares would be issued in the proposed Settlement, with adequate notice thereof having been

given to all those persons. In Canada, Nortel intends to issue the Gross Settlement Shares in reliance upon the Exemptive Relief (as defined herein) granted by the applicable securities regulatory authorities. However, if Nortel determines that such Exemptive Relief is unlikely to be granted, Nortel would qualify the Gross Settlement Shares by a prospectus filed in each Canadian province and territory.

NOW THEREFORE, without any admission or concession on the part of Lead Plaintiffs of any lack of merit of the Nortel II U.S. Action whatsoever, and without any admission or concession of any liability or wrongdoing or lack of merit in the defenses whatsoever by Defendants, it is hereby STIPULATED AND AGREED, by and between the parties to this Stipulation, through their respective counsel, subject to approval of the respective Courts pursuant to, as the case may be, Rule 23(e) of the (United States) Federal Rules of Civil Procedure, Article 1025 of the Quebec *Code of Civil Procedure*, Section 29 of the Ontario Class *Proceedings Act, 1992* and Section 35 of the British Columbia *Class Proceedings Act*, in consideration of the benefits flowing to the parties hereto from the Settlement herein set forth, that all Settled Claims (as defined herein), as against the Released Parties (as defined herein), and all Settled Defendants' Claims (as defined herein) shall be compromised, settled, released and dismissed with prejudice, upon and subject to the following terms and conditions:

DEFINITIONS

1. As used in this Stipulation, the following terms shall have the following meanings:

(a) "Authorized Claimant" means a Class Member who submits a timely and valid Proof of Claim form to the Claims Administrator.

(b) "B.C. Jeffery Action" means *Jeffery et al. v. Nortel Networks Corporation et al.*, Supreme Court of British Columbia, Vancouver Registry Court File No. S015159.

(c) “Canadian Class Counsel” means Ontario National Class Counsel and Quebec Class Counsel.

(d) “Canadian Classes” means the Ontario National Class and the Quebec Class.

(e) “Canadian Courts” means the Superior Court of Quebec and the Ontario Superior Court of Justice.

(f) “Canadian Representative Plaintiffs” means Clifford W. Skarstedt and Peter Gallardi.

(g) “Cash Settlement Amounts” means the amounts specified in ¶ 4(a), (b) (c) and (e) hereof.

(h) “Claims Administrator” means The Garden City Group, Inc. (“GCG”), which shall administer the Settlement.

(i) “Class” means all members of the U.S. Global Class and the Canadian Classes.

(j) “Class Distribution Order” has the meaning defined in ¶ 9 hereof.

(k) “Class Member” means a member of the Class.

(l) “Class Period” means, for the purposes of this Settlement only, the period of time between April 24, 2003 through April 27, 2004, inclusive.

(m) “Court” means the United States District Court for the Southern District of New York.

(n) “Courts” means the United States District Court for the Southern District of New York, the Ontario Superior Court of Justice, and the Superior Court of Quebec.

(o) “Defendants” means Nortel and the Individual Defendants.

(p) "Derivative Application" means the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059 for leave pursuant to the Canada Business Corporations Act to commence a representative action in the name of and on behalf of Nortel against certain of the Released Parties.

(q) "Effective Date" means the date upon which the Settlement contemplated by this Stipulation shall become effective, as set forth in ¶ 24 hereof.

(r) "Escrow Agent" means Bernstein Litowitz Berger & Grossmann LLP and any of its successors as approved by the Courts, if necessary, such successors to be agreed upon by Plaintiffs' Counsel and the parties to the existing escrow agreements, acting as agent for the Class.

(s) "Exemptive Relief" has the meaning defined in ¶ 24(1)(1) hereof.

(t) "Final" or "Finality", with respect to the Judgments (as defined herein), means: (a) if no appeal is filed, the expiration date of the time provided for under the corresponding rules of the applicable court or legislation for filing or noticing of any appeal from the Courts' Judgments approving the Settlement; or (b) if there is an appeal from the Judgments, the date of (i) final dismissal of any appeal from the Judgments, or the final dismissal of any proceeding on certiorari or otherwise to review the Judgments; or (ii) the date of final affirmance on an appeal of the Judgments, the expiration of the time to file a petition for a writ of certiorari or other form of review, or the denial of a writ of certiorari or other form of review of the Judgments, and, if certiorari or other form of review is granted, the date of final affirmance of the Judgments following review pursuant to that grant. Any proceeding or order, or any appeal or petition for a writ of certiorari or other form of review pertaining solely to (i) any application for

attorneys' fees, costs or expenses, and/or (ii) the plan of allocation, shall not in any way delay or preclude the Judgments from becoming Final.

(u) "GCG" means The Garden City Group, Inc.

(v) "Gross Cash Settlement Fund" means the cash amounts paid or to be paid to the Escrow Agent pursuant to ¶ 4(a), (b), (c) and (e) hereof, which consists of (i) Two Hundred Ninety Million, One Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents (US$290,162,428.48), being the sum of Two Hundred Eighty-Seven Million, Five Hundred Thousand United States Dollars (US$287,500,000) plus Two Million, Six Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents (US$2,662,428.48), paid to the Escrow Agents by Nortel on June 1, 2006, plus (ii) Thirteen Million Five Hundred United States Dollars (US$13,500,000) paid by Nortel' s insurers, plus (iii) Sixty Six Million, Four Hundred Ninety-Five Thousand United States Dollars (US$66,495,000) and the interest thereon transferred to the Escrow Agent by the Nortel I escrow agents for the benefit of the Nortel II Class (pursuant to ¶ 4(c) hereof), plus (iv) one-quarter of any actual recovery as a result of the action referenced in T 4(e) hereof, plus (v) any interest on or other income or gains in respect of the amounts in (i), (ii), (iii), (iv) and (v) earned while such amounts are held by the Escrow Agent.

(w) "Gross Settlement Fund" means the Gross Cash Settlement Fund plus the Gross Settlement Shares.

(x) "Gross Settlement Shares" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the Settlement, as may be adjusted in accordance with ¶4(d) hereof.

(y) “Individual Defendants” means Frank Dunn, Douglas C. Beatty, Michael J. Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr.

(z) “Judgment” or “Judgments” means any, some or all of the proposed judgments and orders to be entered by the respective Courts approving the Settlement substantially in the forms attached hereto as Exhibits B, D and E.

(aa) “Lead Plaintiffs” means Ontario Teachers’ Pension Plan Board and the Department of the Treasury of the State of New Jersey and its Division of Investment.

(bb) “Lead Plaintiffs’ Counsel” means the law firm of Bernstein Litowitz Berger & Grossmann LLP.

(cc) “Net Cash Settlement Fund” has the meaning defined in ¶ 5 hereof.

(dd) “Net Settlement Shares” has the meaning defined in ¶ 4(d) hereof.

(ee) “Net Settlement Fund” means the Net Cash Settlement Fund and the Net Settlement Shares.

(ff) “Nortel” means Nortel Networks Corporation.

(gg) “Nortel I Actions” means the Nortel I Canadian Actions and the Nortel I U.S. Action.

(hh) “Nortel I Canadian Actions” means the B.C. Jeffery Action, the Ontario Frohlinger Action and the Quebec A.P.E.I.Q. Action.

(ii) “Nortel I Class” means all persons and entities who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, the “Nortel Securities”) during the period between October 24, 2000 through February 15, 2001, inclusive, and, for purposes of the Nortel I U.S. Action, who suffered

damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from the Nortel I Class are the defendants Nortel, Clarence Chandran, Frank Dunn, John Roth, members of the immediate families of any of the individual defendants, any entity in which any defendant has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of the defendants. Excluded from the class in the Nortel I U.S. Action are any putative class members who previously requested exclusion in response to the Notice of Pendency (as listed in the Affidavit of Jack R. DiGiovanni dated July 2, 2004 and filed with the court in the Nortel I U.S. Action), save if they are also members of any of the Nortel I Canadian classes and do not elect to exclude themselves from such Nortel I Canadian classes (in which case they shall be eligible to share in the proceeds of and will be bound by the terms of the settlement governing the Nortel I Actions). Also excluded from the Nortel I Class are any putative members of the Nortel I Class who exclude themselves by timely requesting exclusion in accordance with the requirements set forth in the notice for the Nortel I Actions.

(jj) "Nortel I Notice" means Notice of Certification in Canada and Proposed Settlements of Class Actions, Motions for Attorneys' Fees and Settlement Fairness Hearings, which is to be sent to members of the Nortel I Class.

(kk) "Nortel I U.S. Action" means *In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01-CV-1855 (RMB).

(ll) "Nortel II Actions" means the Nortel II Canadian Actions and the Nortel II U.S. Action.

(mm) “Nortel II Canadian Actions” mean the Quebec Skarstedt Proceeding and the Ontario Gallardi Action.

(nn) “Nortel II Defendants” means Nortel, the Individual Defendants and Deloitte & Touche LLP.

(oo) “Nortel II U.S. Action” means *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP).

(pp) “Nortel common stock” or “common stock of Nortel” means common shares without nominal or par value in the authorized capital of Nortel.

(qq) “Nortel Securities” means Nortel common stock or call options on Nortel common stock or put options on Nortel common stock.

(rr) “Nortel’ s Counsel” means the law firms of Shearman & Sterling LLP in the United States and Lenczner Slaght Royce Smith Griffin LLP and Ogilvy Renault LLP in Canada.

(ss) “Notice” means the Notice of Pendency and Certifications of Class Actions and Proposed Settlements, Motions for Attorneys’ Fees and Settlement Fairness Hearings, which is to be sent to members of the Class substantially in the form attached hereto as Tab I to Exhibit A.

(tt) “Ontario Gallardi Action” means *Gallardi v. Nortel Networks Corporation et al.*, Court File No. 05-CV-285606CP (Ont. Sup.Ct. J.).

(uu) “Ontario Frohlinger Action” means *Frohlinger v. Nortel Networks Corporation et al.*, Court File No. 02-CL-4605 (Ont. Sup.Ct. J.).

(vv) “Ontario National Class” means the class to be certified, for the purposes of settlement only, by the Ontario Superior Court of Justice in the Ontario Gallardi Action

comprising all persons or entities, except members of the Quebec Class, who, while residing in Canada at the time, purchased Nortel common stock or call options or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive. Excluded from the Ontario National Class are (i) the Defendants; (ii) James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia); (iii) members of the immediate family of each of the Individual Defendants and/or any of the individuals referenced above; (iv) any entity in which any Defendant and/or any of the individuals referenced above has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or director of Nortel or any of its subsidiaries or affiliates during the Class Period; and (vii) the legal representatives, heirs, predecessors, successors or assigns of any of the excluded persons or entities. Also excluded from the Ontario National Class are any putative members of the Ontario National Class who exclude themselves by timely filing a request for exclusion in accordance with the requirements set forth in the Notice.

(ww) "Ontario National Class Counsel" means Rochon Genova LLP and Lemers LLP.

(xx) "Opt-out Threshold" has the meaning set forth in ¶ 23 and in the Supplemental Agreement.

(yy) “Order for Notice and Hearing” means the proposed order preliminarily approving the Settlement and directing notice thereof to the Class substantially in the form attached hereto as Exhibit A.

(zz) “Plaintiffs’ Counsel” means Plaintiffs’ Lead Counsel, Canadian Class Counsel, and any other counsel representing Class Members.

(aaa) “Proof of Claim” means the form substantially in the form attached as Tab 2 to Exhibit A hereto.

(bbb) “Publication Notice” means the summary notice of proposed Settlement and hearing for publication substantially in the form attached as Tab 3 to Exhibit A.

(ccc) “Quebec A.P.E.I.Q. Action” means *Association de Protection des Epargnants et Investisseurs du Quebec v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No: 500-06-000126-017.

(ddd) “Quebec Class” means the class to be authorized by the Superior Court of Quebec in the Quebec Skarstedt Action, comprised of all persons and entities who, while residing in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive. For purposes of the definition of Quebec Class, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm’ s length with the representative of the Quebec Class. Excluded from the Quebec Class are (i) defendants in the Nortel II Actions; (ii) James Kinney (Finance Chief for Nortel’ s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for

Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia); (iii) members of the immediate family of each of the individual defendants in the Nortel II Actions and/or any of the individuals referenced above; (iv) any entity in which any defendant in the Nortel II Actions and/or any of the individuals referenced above has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or director of Nortel or any of its subsidiaries or affiliates during the Class Period; and (vii) the legal representatives, heirs, predecessors, successors or assigns of any of the excluded persons or entities. Also excluded from the Quebec Class are any putative members of the Quebec Class who exclude themselves by timely filing a request for exclusion in accordance with the requirements set forth in the Notice.

(eee) "Quebec Class Counsel" means Trudel & Johnston.

(fff) "Quebec Skarstedt Action" means *Skarstedt v. Corporation Nortel Networks*, Superior Court of Quebec, No: 500-06-000277-059.

(ggg) "Released Parties" means any and all of the Nortel II Defendants, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any Nortel II Defendant has a controlling

interest or which is related to or affiliated with any of the Nortel II Defendants, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the Defendants.

(hhh) "Settled Claims" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or unmatured, whether class or individual in nature, including both known claims and Unknown Claims (as defined herein), (i) that have been asserted in any of the Nortel II Actions against any of the Released Parties, or (ii) that could have been asserted in any forum by the Class Members or any of them against any of the Released Parties which arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Nortel II Actions and which relate to the purchase of Nortel common stock or call options on Nortel common stock or the writing (sale) of put options on Nortel common stock during the Class Period, or (iii) any oppression or other claims under the Canada Business Corporations Act, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the Nortel II Actions. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the (United States) Employee Retirement Income Security Act of 1974, as amended, 29 U.S.C. § 1001, *et seq.* ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the

Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include: (a) the action in *Rohac et al. v. Nortel Networks Corp. et al.*, Ontario Superior Court of Justice, Court File No. 04-CV-3268 and (b) the Derivative Application.

(iii) "Settled Defendants' Claims" means any and all claims, rights or causes of action or liabilities whatsoever, whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, including both known claims and Unknown Claims, that have been or could have been asserted in the Nortel II Actions or any forum by the Defendants or any of them or the successors and assigns of any of them against any of the Lead Plaintiffs, Canadian Representative Plaintiffs, any Class Member or their attorneys, which arise out of or relate in any way to the institution, prosecution, or settlement of the Nortel II Actions (except Settled Defendants' Claims does not include all claims, rights or causes of action or liabilities whatsoever related to the enforcement of the Settlement, including, without limitation, any of the terms of this Stipulation or orders or judgments issued by the Courts in connection with the Settlement, confidentiality obligations or in respect of the Derivative Application).

(jjj) "Settlement" means the global settlement of the Nortel II Actions contemplated by this Stipulation.

(kkk) "Settlement Amount" means (i) Two Hundred Ninety Million, One Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents (US$290,162,428.48) as set out in ¶ 4(a) hereof; (ii) Thirteen Million Five Hundred Thousand United States Dollars (US$13,500,000) as set out in ¶ 4(b) hereof; (iii) Sixty-Six Million, Four Hundred and Ninety-Five Thousand United States Dollars (US$66,495,000) as

set out in ¶ 4(c) hereof; (iv) the Gross Settlement Shares issued by Nortel as set out in ¶ 4(d) hereof; and (v) one-quarter of any actual gross recovery by Nortel referenced in ¶ 4(e) hereof as a result of the action referenced therein;

(lll) "Stipulation" means this Stipulation and Agreement of Settlement.

(mmm) "Taxes" means (i) any and all applicable taxes, duties and similar charges imposed by a government authority (including any estimated taxes, interest or penalties) arising in any jurisdiction, if any (A) with respect to the income or gains earned by or in respect of the Gross Cash Settlement Fund, including, without limitation, any taxes that may be imposed upon Nortel or their counsel with respect to any income or gains earned by or in respect of the Gross Cash Settlement Fund for any period while it is held by the Escrow Agent during which the Gross Cash Settlement Fund does not qualify as a Qualified Settlement Fund for federal or state income tax purposes; (B) with respect to the Gross Settlement Shares, if issued to the Escrow Agents, prior to their distribution to the Authorized Claimants or Lead Plaintiffs' Counsel; or (C) by way of withholding as required by applicable law on any distribution by the Escrow Agent or the Claims Administrator of any portion of the Gross Settlement Fund to Authorized Claimants and other persons entitled hereto pursuant to this Stipulation; and (ii) any and all expenses, liabilities and costs incurred in connection with the taxation of the Gross Settlement Fund (including without limitation, expenses of tax attorneys and accountants). For the purposes of paragraph (A) hereof, taxes imposed on Nortel shall include amounts equivalent to taxes that would be payable by Nortel but for the existence of relief from taxes by virtue of loss carryforwards or other tax attributes, determined by Nortel, acting reasonably, and accepted by the Escrow Agent, acting reasonably.

(nnn) “Unknown Claims” means any and all Settled Claims which any of the Lead Plaintiffs, Canadian Representative Plaintiffs or Class Members does not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties and any Settled Defendants’ Claims which any Nortel II Defendant does not know or suspect to exist in his, her or its favor, as of the Effective Date, which if known by him, her or it might have affected his, her or its decision(s) with respect to the Settlement. With respect to any and all Settled Claims and Settled Defendants’ Claims, the parties stipulate and agree that upon the Effective Date, the Lead Plaintiffs, Canadian Representative Plaintiffs and the Defendants shall expressly waive, and each Class Member shall be deemed to have waived, and by operation of the Judgments shall have expressly waived, any and all provisions, rights and benefits conferred by any law of any state, province or territory of the United States or Canada, or principle of common law or otherwise, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

Lead Plaintiffs, Canadian Representative Plaintiffs and Nortel acknowledge, and Class Members by operation of law shall be deemed to have acknowledged, that the inclusion of “Unknown Claims” in the definition of Settled Claims and Settled Defendants’ Claims was separately bargained for and was a key element of the Settlement.

(ooo) “U.S. Global Class” means, for the purposes of this settlement only, all persons and entities who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive, and who suffered damages thereby. Members of the Canadian Classes who suffered damages are included within the definition of U.S. Global Class,

unless otherwise excluded by this definition. Excluded from the U.S. Global Class are (i) the Defendants; (ii) James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia); (iii) members of the immediate family of each of the Individual Defendants; (iv) any entity in which any Defendant and/or any of the individuals referenced above has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or director of Nortel or any of its subsidiaries or affiliates during the Class Period; and (vii) the legal representatives, heirs, predecessors, successors or assigns of any of the excluded persons or entities. Also excluded from the U.S. Global Class are any putative members of the U.S. Global Class who exclude themselves by timely requesting exclusion in accordance with the requirements set forth in the Notice.

SCOPE AND EFFECT OF SETTLEMENT

2. The obligations incurred pursuant to this Stipulation shall be in full and final disposition of the Nortel II U.S. Action as part of the Settlement and any and all Settled Claims as against all Released Parties and any and all Settled Defendants' Claims.

3. (a) Upon the Effective Date of the Settlement, Lead Plaintiffs, Canadian Representative Plaintiffs (as confirmed in separate agreements) and all Class Members on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns, with respect to each and every Settled Claim, release and forever discharge, and are forever enjoined from prosecuting, any Settled Claims against any of the Released Parties, and shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit, cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date.

(b) Upon the Effective Date of this Settlement, defendants Nortel, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr., on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns, release and forever discharge each and every one of the Settled Defendants' Claims, and are forever enjoined from prosecuting the Settled Defendants' Claims against Lead Plaintiff, all Class Members and their respective counsel.

(c) Notwithstanding the provisions of ¶ 3(a) hereof, in the event that any of the Released Parties asserts against the Lead Plaintiff, any Class Member or their respective

counsel, any claim that is a Settled Defendants' Claim, then Lead Plaintiff, such Class Member or counsel shall be entitled to use and assert such factual matters included within the Settled Claims only against such Released Party in defense of such claim but not for the purposes of asserting any claim against any Released Party.

SETTLEMENT CONSIDERATION

4. In consideration for the release and discharge provided for in ¶ 3(a) hereof, Nortel shall (i) pay or cause to be paid the Settlement Amount, as prescribed in ¶ 4(a) – (e), hereof; and (ii) adopt the corporate governance enhancements as prescribed in ¶ 4(f) hereof.

(a) On June 1, 2006, Nortel paid to the Escrow Agent as agent for the benefit of the Class: Two Hundred Ninety Million, One Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents (U.S.$290,162,428.48) being an amount computed as the sum of (i) Two Hundred Eighty-Seven Million, Five Hundred Thousand United States Dollars (U.S.$287,500,000), and (ii) Two Million, Six Hundred Sixty-Two Thousand, Four Hundred and Twenty-Eight United States Dollars and Forty-Eight Cents (US$2,662,428.48), which is an amount equal to the interest that would have been earned on the amount in (i) above from March 23, 2006 if invested at the compounded rate for 90-day United States Treasury securities.

(b) Nortel' s insurance carriers have paid to the Escrow Agent as agent for the benefit of the Class Thirteen Million Five Hundred Thousand United States Dollars (U.S.$13,500,000) (the "Insurers' Nortel II Cash Settlement Amount").

(c) Pursuant to an allocation agreement between the Lead Plaintiffs in the Nortel II U.S. Action and the lead plaintiff in the Nortel I U.S. Action, the escrow agents in the Nortel I Action transferred Sixty-Six Million, Four Hundred Ninety-Five Thousand United States Dollars (US$66,495,000), plus interest thereon from April 3, 2006 to the date of the transfer at

the same interest rate earned on the gross cash settlement fund in the Nortel I Actions, from the gross cash settlement fund in the Nortel I Actions to the Escrow Agent.

(d) In addition, in payment of that part of the Settlement Amount described in part (iv) of the definition thereof, and at a time or times subsequent to the Effective Date, Nortel will, following receipt of the written instructions referred to below (which written instructions shall be deliverable only after the Effective Date), as promptly as possible using every commercially reasonable effort, issue and deliver the Gross Settlement Shares in whole or in part and from time to time (any such shares referred to herein as "Settlement Shares") as instructed in writing by Lead Plaintiffs' Counsel, on notice to and in consultation with Canadian Class Counsel, which instructions, as relate to Authorized Claimants, shall include proportionate distributions to all Authorized Claimants based on the determinations made by the Claims Administrator and approved by the Class Distribution Order. Upon receipt of such instructions, Nortel will cause its transfer agent to issue certificates evidencing such Settlement Shares registered in the respective names of the Authorized Claimants (or, if acceptable to Nortel, through "book-entry" registration of such Settlement Shares) and, to the extent applicable, Plaintiffs' Counsel (as awarded in accordance with ¶ 8 hereof) and in such amounts as set forth in such instructions, and deliver such certificates and/or notices to such Authorized Claimants and Plaintiffs' Counsel, as applicable. The reasonable costs and expenses of such physical delivery and extraordinary or expedited services, if any, of the transfer agent shall be paid out of the Gross Cash Settlement Fund. The Gross Settlement Shares issued and delivered by Nortel pursuant to this Settlement shall be freely tradeable upon receipt by the Authorized Claimants and Plaintiffs' Counsel, subject to (i) under U.S. securities laws, (A) the approvals required under U.S. state securities or "blue sky" laws referred to in ¶ 24(i)(4) hereof and (B) such

limitations on resale as may be applicable with respect to Authorized Claimants who are "affiliates" of Nortel within the meaning of such securities laws, and (ii) such limitations on resale as may be applicable under Canadian securities laws or as contemplated by the Exemptive Relief. At the time of issuance and delivery, the Gross Settlement Shares shall be listed for trading on the New York Stock Exchange and the Toronto Stock Exchange, subject to official notice of issuance. Nortel shall at no cost to the Class either register the Gross Settlement Shares or confirm that it has received the written opinion of counsel, substantially to the effect that the issuance and delivery to the Authorized Claimants and Plaintiffs' Counsel of the Gross Settlement Shares are exempt from registration under the (United States) Securities Act of 1933, 15 U.S.C. § 77c(a)(1), as amended, pursuant to Section 3(a)(10) thereunder. Nortel shall also, at no cost to the Class, either qualify the Gross Settlement Shares pursuant to a prospectus filed under all applicable Canadian provincial and territorial securities legislation or confirm that it has received the written opinion of Canadian counsel substantially to the effect that the issuance and delivery to the Authorized Claimants and Plaintiffs' Counsel of the Gross Settlement Shares in Canada are exempt from the dealer registration and prospectus requirements of all applicable Canadian provincial and territorial securities legislation and that the first trade in any such province or territory of Gross Settlement Shares shall not be subject to the prospectus requirements of the securities legislation of such province or territory provided that the conditions on resale set forth in the Exemptive Relief are satisfied. Nortel understands that such written opinions may be relied upon by Nortel' s transfer agent. From the date hereof until the date or dates Nortel issues the Gross Settlement Shares upon Lead Plaintiff' s Counsel' s written instructions as aforesaid, the Gross Settlement Shares shall be appropriately adjusted to account for any stock splits, stock consolidations, stock dividends, return of capital, extraordinary

distributions, recapitalization or sale of all or substantially all of Nortel' s assets or, by Nortel using every commercially reasonable effort to cause a counterparty to agree to the adjustment contemplated by this If 4(d), any conversion or exchange of Nortel' s outstanding shares of common stock into other shares, securities or property resulting from an amalgamation or merger. The Gross Settlement Shares, less any Settlement Shares awarded to Plaintiffs' Counsel pursuant to ¶ 8 hereof (the "Net Settlement Shares"), shall be distributed to Authorized Claimants.

(e) In addition to the payment of those parts of the Settlement Amounts described in ¶ 4(a), (b), (c) and (d) above, Nortel will also contribute to the Gross Cash Settlement Fund by payment to the Escrow Agent, one-quarter of the amount of any actual gross recovery (including the value of any monetary benefit that Nortel might receive from the defendants by way of forgiveness or cancellation of any monetary debt owed by Nortel to such defendants), excluding court-awarded attorneys' fees and expenses, if any, in the existing action commenced by Nortel against Frank Dunn, Douglas Beatty and Michael Gollogly in the Ontario Superior Court of Justice bearing Court File No. 05-CV-283095PD1.

(f) Within sixty (60) days after the Effective Date, Nortel shall adopt the corporate governance enhancements described in Appendix A of the Notice.

5. (a) The Gross Cash Settlement Fund shall be used to pay (i) the Notice and Publication Notice and administration costs referred to in ¶ 7 hereof, (ii) the attorneys' fee and expense award referred to in ¶ 8 hereof, and (iii) the remaining administration expenses referred to in ¶ 9 hereof. The balance of the Gross Cash Settlement Fund after the above payments and payment of any Taxes (as defined herein) shall be the Net Cash Settlement Fund. The Net Cash Settlement Fund shall be transferred following the Effective Date by the Escrow Agent to the

Claims Administrator for distribution to Authorized Claimants as provided in ¶¶ 10-12 hereof. Any sums required to be held in escrow hereunder shall be held by the Escrow Agent as agent for the Class. All funds held by the Escrow Agent shall be deemed to be in the custody of the Courts until such time as the funds shall be distributed to Authorized Claimants or paid to the persons paying the same pursuant to this Stipulation and/or further order of the Courts. The Escrow Agent shall invest any funds in excess of U.S.$100,000 in short term United States Agency or Treasury Securities (or a mutual fund invested solely in such instruments), and shall collect and reinvest all interest accrued thereon. Any funds held in escrow in an amount of less than U.S.$100,000 may be held in a bank account insured by the Federal Deposit Insurance Corporation ("FDIC"). The parties hereto agree that the Gross Cash Settlement Fund is intended to be a Qualified Settlement Fund within the meaning of Treasury Regulation § 1.468B-1, and that the Escrow Agent as administrator of the Gross Cash Settlement Fund within the meaning of Treasury Regulation § I.468B-2(k)(3), shall be responsible for filing tax returns and any other tax reporting for or in respect of the Gross Settlement Fund and paying from the Gross Cash Settlement Fund any Taxes owed with respect to the Gross Settlement Fund. The parties hereto agree that the Gross Cash Settlement Fund shall be treated as a Qualified Settlement Fund from the earliest date possible, and agree to any relation-back election required to treat the Gross Cash Settlement Fund as a Qualified Settlement Fund from the earliest date possible. Nortel agrees to provide promptly to the Escrow Agent the statement described in Treasury Regulation § I.468B-3(e).

(b) All Taxes (as defined herein) shall be paid out of the Gross Cash Settlement Fund, shall be considered to be a cost of administration of the Settlement and shall be timely paid by the Escrow Agent without prior Order of the Courts. The Gross Settlement Fund

or the Escrow Agent shall, to the extent required by law, be obligated to withhold from any distributions to Authorized Claimants and other persons entitled thereto pursuant to this Stipulation any funds necessary to pay Taxes including the establishment of adequate reserves for Taxes as well as any amount that may be required to be withheld under Treasury Reg. 1.468B-(1)(2) or otherwise under applicable law in respect of such distributions. Further, the Gross Settlement Fund shall indemnify and hold harmless the Nortel II Defendants and their counsel for Taxes (including, without limitation, taxes payable by reason of any such indemnification payments).

(c) Furthermore, to the extent (without prejudice or admission of any kind) that the Funds d' aide aux recours collectifs (Class Action Assistance Fund (the "Fund")) of Quebec is entitled under Quebec law to any portion of the Gross Cash Settlement Fund and/or the Gross Settlement Shares regarding claims by Quebec residents with respect to either of these compensatory items, any relevant payments (whether in cash or shares) will be set aside by the Claims Administrator on behalf of and paid over to the Fund from the amounts otherwise allocable to such Quebec residents, it being agreed and understood that none of the Nortel II Defendants or the Released Parties shall bear any responsibility for any such payment of cash or shares.

(d) None of the Nortel II Defendants, the Released Parties or their respective counsel shall have any responsibility for or liability whatsoever with respect to (i) any act, omission or determination of Lead Plaintiffs' Counsel, the Escrow Agent or the Claims Administrator, or any of their respective designees or agents, in connection with the administration of the Settlement or otherwise; (ii) the management, investment or distribution of the Gross Cash Settlement Fund; (iii) the Plan of Allocation; (iv) the determination,

administration, calculation or payment of any claims asserted against the Gross Settlement Fund; (v) any losses suffered by, or fluctuations in the value of, the Gross Settlement Fund; or (vi) the payment or withholding of any Taxes, expenses and/or costs incurred in connection with the taxation of the Gross Settlement Fund or the filing of any returns.

(e) Authorized Claimants shall provide any and all such information that the Claims Administrator may reasonably require and is required by applicable law in respect of Taxes and filings and reportings for and in respect of Taxes, before any distributions are made to Authorized Claimants as contemplated hereby and the Claims Administrator may, without liability to the Authorized Claimants, delay such distributions unless and until such information is provided in the form required by the Claims Administrator.

ADMINISTRATION

6. The Claims Administrator shall administer the Settlement subject to the concurrent jurisdictions of the Courts for all members of the Canadian Classes and for all other Class Members subject solely to the jurisdiction of the Court. To the extent reasonably necessary to effectuate the terms of the Settlement, Nortel shall provide to the Claims Administrator, without charge, all information from Nortel' s transfer records concerning the identity of Class Members and their transactions.

7. (a) The Escrow Agent, acting solely in its capacity as escrow agent, shall be subject to the jurisdiction of the Courts.

(b) The Escrow Agent may pay from the Gross Cash Settlement Fund, without further approval from Nortel, all reasonable costs and expenses associated with identifying and notifying the Class Members and effecting mailing of the Notice and Proof of Claim and publication of the Publication Notice to the Class, and the administration of the Settlement, including without limitation, the actual costs of printing and mailing the Notice and

Proof of Claim, publication of the Publication Notice, reimbursements to nominee owners for forwarding the Notice and Proof of Claim to their beneficial owners, and the administrative expenses incurred and fees charged by the Claims Administrator in connection with providing notice and processing the submitted claims. In the event that the Settlement is terminated, as provided for herein, notice and administration costs paid or accrued in connection with this paragraph shall not be returned to the persons who paid the Cash Settlement Amounts.

(c) The Escrow Agent may rely upon any notice, certificate, instrument, request, paper or other document reasonably believed by it to be genuine and to have been made, sent or signed by an authorized signatory in accordance with this Stipulation, and shall not be liable for (and will be indemnified from the Gross Cash Settlement Fund and held harmless from and against) any and all claims, actions, damages, costs (including reasonable attorneys' fees) and expenses claimed against or incurred by the Escrow Agent for any action taken or omitted by it, consistent with the terms hereof and the terms of separate escrow agreements between Nortel and the insurers and the Escrow Agent, in connection with the performance by it of its duties pursuant to the provisions of this Stipulation or order of the Courts, except for its gross negligence or willful misconduct. If the Escrow Agent is uncertain as to its duties hereunder, the Escrow Agent may (i) request that Lead Plaintiffs and Canadian Representative Plaintiffs (and, prior to the Effective Date, Nortel) sign a document which states the action or non-action to be taken by the Escrow Agent or (ii) commence an Interpleader action in a federal court in the Southern District of New York and be reimbursed out of the monies held in the Gross Cash Settlement Fund for its costs and expenses (including reasonable attorneys' fees). In the event the Settlement is terminated, as provided for herein, indemnified amounts and expenses incurred by the Escrow Agent in connection with this paragraph shall not be returned to the persons who paid the Settlement Amounts.

ATTORNEYS' FEES AND EXPENSES

8. Lead Plaintiffs' Counsel will apply to the United States District Court for the Southern District of New York for an award of attorneys' fees and reimbursement of expenses payable from both the Gross Cash Settlement Fund and Gross Settlement Shares. Canadian Class Counsel will apply to their corresponding Canadian Courts for an award of their counsel fees and reimbursement of expenses to be paid from the Gross Cash Settlement Fund and Gross Settlement Shares. All Plaintiffs' Counsel shall further provide to their respective Courts, as part of the motion for approval of the Settlement, all necessary information required by their respective courts concerning the total award of attorneys' fees and reimbursement of expenses to be payable from the Gross Cash Settlement Fund and Gross Settlement Shares. The total amount of shares awarded as attorneys' fees and reimbursement of expenses may amount to no more than one-third of the Gross Settlement Shares, and in fact shall be substantially less. Such amounts as are awarded by the United States District Court for the Southern District of New York to Lead Plaintiffs' Counsel or from the Canadian Courts to Canadian Class Counsel from the Gross Cash Settlement Fund shall be payable by the Escrow Agent immediately upon award, notwithstanding the existence of any timely filed objections thereto, or potential for appeal therefrom, or collateral attack on the Settlement or any part thereof, subject to Plaintiffs' Counsel' s obligations to make appropriate refunds or repayments to the Gross Cash Settlement Fund plus accrued interest at the same rate as is earned by the Gross Cash Settlement Fund, if and when, as a result of any appeal and/or further proceedings on remand, or successful collateral attack, the fee or cost award is reduced or reversed. Such amounts as are awarded to Plaintiffs' Counsel by the Courts from the Gross Settlement Shares shall be payable to Plaintiffs' Counsel at the first date on which the Effective Date has occurred and the award of attorneys' fees is Final.

CLASS DISTRIBUTION ORDER/ADMINISTRATION EXPENSES

9. Lead Plaintiffs' Counsel and Canadian Class Counsel will apply respectively to the United States District Court for the Southern District of New York, and with respect to the claims of Canadian Class Members to the Canadian Courts, on notice to Nortel' s Counsel, for an order (the "Class Distribution Order") approving the Claims Administrator' s administrative determinations concerning the acceptance and rejection of the claims submitted herein, and approving any fees and expenses not previously applied for relating to the administration of the Settlement, including the fees and expenses of the Claims Administrator, the reasonable costs and expenses of the physical delivery of the Gross Settlement Shares and any extraordinary or expedited services of the transfer agent with respect to such physical delivery, and, only if the Effective Date has occurred, directing payment of the Net Settlement Fund to Authorized Claimants.

DISTRIBUTION TO AUTHORIZED CLAIMANTS

10. The Claims Administrator shall determine each Authorized Claimant' s pro rata share of the Net Settlement Fund based upon each Authorized Claimant' s Recognized Claim (as defined in the Plan of Allocation described in the Notice annexed hereto as Tab 1 to Exhibit A).

11. It is understood and agreed by the parties that the proposed Plan of Allocation, including, but not limited to, any adjustments to any Authorized Claimant' s claim set forth herein, is not part of the Stipulation and is to be considered by the Courts separately from the Courts' consideration of fairness, reasonableness and adequacy of the Settlement, and any order or proceeding relating to the Plan of Allocation shall not operate to terminate or cancel the Stipulation or affect the Finality of the Courts' Judgments approving the Stipulation and the Settlement set forth herein, or any other orders entered pursuant to the Stipulation.

12. Each Authorized Claimant shall be allocated a pro rata share of the Net Settlement Fund based on his, her or its recognized claim compared to the total recognized claims of all Authorized Claimants. This is not a claims-made settlement. Neither Nortel nor its insurers shall be entitled to receive any of the Gross Settlement Fund following the Effective Date. The Defendants shall have no involvement in reviewing or challenging claims.

ADMINISTRATION OF THE SETTLEMENT

13. Any Class Member who does not submit a valid Proof of Claim will not be entitled to receive any of the proceeds from the Net Settlement Fund but will otherwise be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgments to be entered in the Actions and the releases provided for herein, and will be barred from bringing any action against the Released Parties concerning the Settled Claims.

14. The Claims Administrator shall process the Proofs of Claim and, after the Effective Date and entry of the Class Distribution Order, Lead Plaintiffs' Counsel in conjunction

with Canadian Class Counsel shall give to Nortel the written instructions to issue and deliver the Gross Settlement Shares in accordance with ¶ 4(d) hereof and the Claims Administrator shall distribute the Net Cash Settlement Fund to Authorized Claimants, and Nortel shall cause the transfer agent to distribute the Net Settlement Shares to Authorized Claimants. Except for Nortel' s obligation to pay or cause to be paid the Cash Settlement Amounts to the Escrow Agent in accordance with ¶ 4 (a), (b) and (e) hereof, and to cooperate in the production of information with respect to the identification of Class Members from Nortel' s shareholder transfer records, as provided herein, and to issue and deliver the Gross Settlement Shares in accordance with If 4(d) hereof, Defendants shall have no liability, obligation or responsibility for the administration of the Settlement or disbursement of the Net Settlement Fund. Lead Plaintiff' s Counsel or Canadian Class Counsel, as the case may be, shall have the right, but not the obligation, to advise the Claims Administrator to waive what Lead Plaintiff' s Counsel, or, with respect to claims of the Canadian Class Members, Canadian Class Counsel, deem to be formal or technical defects in any Proofs of Claim submitted in the interests of achieving substantial justice.

15. For purposes of determining the extent, if any, to which a Class Member shall be entitled to be treated as an Authorized Claimant, the following conditions shall apply:

(a) Each Class Member shall be required to submit a Proof of Claim (see attached Tab 2 to Exhibit A), supported by such documents as are designated therein, including proof of the transactions claimed and the losses incurred thereon or such other documents or proof as the Claims Administrator, in its discretion, may deem acceptable;

(b) All Proofs of Claim must be submitted by the date specified in the Notice unless such period is extended by Order of the United States District Court for the Southern District of New York or, in the case of a member of Canadian Class, the applicable Canadian

Court that certified the Canadian Class. Any Class Member who fails to submit a Proof of Claim by such date shall be forever barred from receiving any payment pursuant to the Settlement (unless, by court Order, a later submitted Proof of Claim by such Class Member is approved), but shall in all other respects be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgments to be entered in the Norte] II Actions, and the releases provided for herein, and will be barred from bringing any action against the Released Parties concerning the Settled Claims. Provided that it is received before the first motion for the Class Distribution Order is filed, a Proof of Claim shall be deemed to have been submitted when posted, if received with a postmark indicated on the envelope and if mailed by first-class mail and addressed in accordance with the instructions thereon. In all other cases, the Proof of Claim shall be deemed to have been submitted when actually received by the Claims Administrator;

(c) Each Proof of Claim shall be submitted to and reviewed by the Claims Administrator, which shall determine in accordance with this Stipulation and the approved Plan of Allocation the extent, if any, to which each claim shall be allowed, subject to review by the Courts pursuant to subparagraph (e) below;

(d) Proofs of Claim that do not meet the submission requirements may be rejected. Prior to rejection of a Proof of Claim, the Claims Administrator shall communicate with the claimant in order to attempt to remedy the curable deficiencies in the Proof of Claim submitted. The Claims Administrator shall notify, in a timely fashion and in writing, each claimant whose Proof of Claim they propose to reject in whole or in part, setting forth the reasons therefor, and shall indicate in such notice that the claimant whose claim is to be rejected has the right to a review by the United States District Court for the Southern District of New York or, in the case of a member of a Canadian Class the applicable Canadian Court that

certified the Canadian Class if the claimant so desires and complies with the requirements of subparagraph (e) below; and

(e) If any claimant whose claim has been rejected in whole or in part desires to contest such rejection, the claimant must, within twenty (20) days after the date of mailing of the notice required in subparagraph (d) above, serve upon the Claims Administrator a notice and statement of reasons indicating the claimant' s grounds for contesting the rejection along with any supporting documentation, and requesting a final review thereof by the United States District Court for the Southern District of New York or, in the case of a member of a Canadian Class the applicable Canadian Court that certified the Canadian Class. If a dispute concerning a claim cannot be otherwise resolved, Lead Plaintiffs' Counsel or Canadian Class Counsel shall thereafter present the request for review to the respective court or to such court' s designee.

16. The administrative determinations of the Claims Administrator accepting and rejecting claims shall be presented to the United States District Court for the Southern District of New York, and with respect to the claims of Canadian Class Members to the Canadian Courts, on notice to Nortel' s Counsel, for approval in the Class Distribution Order.

17. Each claimant shall be deemed to have submitted to the jurisdiction of the United States District Court for the Southern District of New York and, in the case of members of the Canadian Classes with respect to such claimant' s claim the Canadian Court that certified the applicable Canadian Class, and the claim will be subject to investigation and discovery under the (United States) Federal Rules of Civil Procedure, or under applicable Canadian rules with respect to members of the Canadian Classes, provided that such investigation and discovery shall be limited to that claimant' s status as a Class Member and the validity and amount of such

claimant' s claim. No discovery shall be allowed on the merits of the Nortel II Actions or the Settlement in connection with processing of the Proofs of Claim.

18. Payment pursuant to the Settlement shall be deemed final and conclusive against all Class Members. All Class Members whose claims are not approved pursuant to the Class Distribution Order shall be barred from participating in distributions from the Net Settlement Fund, but otherwise shall be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgments to be entered in the Nortel II Actions, and the releases provided for herein, and will be barred from bringing any action against the Released Parties concerning the Settled Claims.

19. All proceedings with respect to the administration, processing and determination of claims described by ¶15 hereof, and the determination of all controversies relating thereto, including disputed questions of law and fact with respect to the validity of claims, shall be subject to the jurisdiction of the United States District Court for the Southern District of New York or, in the case of a Canadian Class Member, the jurisdiction of the applicable Canadian Court that certified the Canadian Class.

20. The Net Cash Settlement Fund shall be distributed to Authorized Claimants by the Claims Administrator, and the Net Settlement Shares shall be issued and distributed to Authorized Claimants in accordance with ¶ 4(d) hereof, only after the Effective Date and after all Claims have been processed, and all claimants whose Claims have been rejected or disallowed, in whole or in part, have been notified and provided the opportunity to contest with the Claims Administrator such rejection or disallowance.

TERMS OF ORDER FOR NOTICE AND HEARING

21. (a) Promptly after this Stipulation has been fully executed, Lead Plaintiffs Counsel and Nortel' s Counsel jointly shall apply to the United States District Court for the

Southern District of New York for entry of an Order for Notice and Hearing, substantially in the form annexed hereto as Exhibit A.

(b) Promptly after this Stipulation has been fully executed, the Canadian Representative Plaintiffs shall apply to the respective Canadian Courts for, and Nortel shall consent to, orders for certification of the Nortel II Canadian Actions (for settlement purposes only and on terms acceptable to Nortel) substantially in the form annexed hereto as Exhibits D − F and for directions approving the Notice.

(c) The mailing or publication of the Notice and Publication Notice shall not occur until all such orders of the Courts have been obtained, and in the event that any of the Courts require changes in the Notice or the Publication Notice, after such changes are also approved by the other Courts.

TERMS OF ORDER AND FINAL JUDGMENT

22. (a) If the Settlement contemplated by this Stipulation is approved by the United States District Court for the Southern District of New York, Plaintiffs' Lead Counsel and Nortel' s Counsel shall request that a Judgment be entered substantially in the form annexed hereto as Exhibit B.

(b) If the Settlement contemplated by this Stipulation is approved by the Canadian Courts, Nortel' s counsel and Canadian Class Counsel jointly shall apply to the respective Canadian Courts for entry of Judgments substantially in the forms annexed hereto as Exhibits F and G.

SUPPLEMENTAL AGREEMENT

23. Simultaneously herewith, Lead Plaintiffs' Counsel, Canadian Class Counsel and Nortel' s Counsel are executing a "Supplemental Agreement" setting forth certain conditions under which this Settlement may be terminated by Nortel if potential Class Members who

purchased in excess of a certain number of shares of Nortel Securities traded during the Class Period exclude themselves from the Class (the "Opt-out Threshold"). Unless otherwise directed by the Courts, the Supplemental Agreement may be filed with the Opt-out Threshold redacted. Notwithstanding the foregoing, the Opt-out Threshold may be disclosed to the Courts for purposes of the approval of the Settlement, as may be required by the Courts, but such disclosure shall be carried out to the fullest extent possible in accordance with the practices of the respective Courts so as to maintain the Opt-out Threshold as confidential. In the event of a termination of this Settlement pursuant to the Supplemental Agreement, this Stipulation shall become null and void and of no further force and effect, with the exception of the provisions of 1 28 which shall continue to apply. Notwithstanding the foregoing, the Stipulation shall not become null and void as a result of the election by Nortel to exercise its option to withdraw from the Stipulation pursuant to the Supplemental Agreement until the conditions set forth in the Supplemental Agreement have been satisfied. The Supplemental Agreement is attached hereto as Exhibit C, with the Opt-out Threshold redacted.

EFFECTIVE DATE OF SETTLEMENT, WAIVER OR TERMINATION

24. The "Effective Date" of Settlement shall be the date when all the following conditions of settlement shall have occurred:

(a) approval by the United States District Court for the Southern District of New York of the Settlement, following notice to the Class and a hearing, as prescribed by Rule 23 of the (United States) Federal Rules of Civil Procedure;

(b) entry by the United States District Court for the Southern District of New York of a Judgment, substantially in the form set forth in Exhibit B annexed hereto, and the expiration of any time for appeal or review of such Judgment, or, if any appeal is filed, after such Judgment is upheld on appeal in all material respects and is no longer subject to review upon

appeal or review by writ of certiorari, or, in the event that the United States District Court for the Southern District of New York enters an order and final Judgment in a form other than that provided above ("Alternative U.S. Judgment") and none of the parties hereto elect to terminate this Settlement, the date that such Alternative U.S. Judgment becomes Final;

(c) approval of the Settlement by the Ontario Superior Court of Justice in the Ontario Gallardi Action, following notice to the Ontario National Class and a hearing pursuant to the Ontario *Class Proceedings Act, 1992*;

(d) entry by the Ontario Superior Court of Justice in the Ontario Gallardi Action of a Judgment, substantially in the form set forth in Exhibit F annexed hereto, and the expiration of any time for appeal or review of any and all of such Judgment, or, if any appeal is filed, after any such judgment is upheld on appeal in all material respects and is no longer subject to review upon appeal or otherwise, or, in the event that the Ontario Superior Court of Justice enters an order and final judgment in a form other than that provided above ("Alternative Ontario Judgment") and none of the parties hereto elect to terminate this Settlement pursuant to ¶ 25(d) hereof within 30 days of the Ontario Superior Court of Justice entering the Alternative Ontario Judgment, the date that such Alternative Ontario Judgment becomes Final;

(e) approval of the Settlement by the Superior Court of Quebec in the Quebec Skarstedt Action, following notice to the Quebec Class and a hearing pursuant to the Quebec *Code of Civil Procedure*;

(f) entry by the Superior Court of Quebec in the Skarstedt Action of a Judgment, substantially in the form set forth in Exhibit G annexed hereto, and the expiration of any time for appeal or review of any and all of such Judgments, or, if any appeal is filed, after any such Judgment is upheld on appeal in all material respects and is no longer subject to review

upon appeal or otherwise, or, in the event that the Superior Court of Quebec enters an order and final judgment in a form other than that provided above ("Alternative Quebec Judgment") and none of the parties hereto elect to terminate this Settlement pursuant to ¶ 25(d) hereof within 30 days of the Superior Court of Quebec entering an Alternative Quebec Judgment, the date that such Alternative Quebec Judgment becomes Final;

(g) Nortel shall have used every commercially reasonable effort to cause (1), (2), (3) and (4) below to have been obtained and Nortel shall have received, in form and substance satisfactory to it:

(1) either (A) an MRRS decision document issued pursuant to National Policy 12-201 – Mutual Reliance Review System for Exemptive Relief Applications, or any successor, replacement or amending regulatory instrument ("NI 12-201") exempting the issuance, delivery and distribution of the Gross Settlement Shares in accordance with the terms of the Settlement from the dealer registration and prospectus requirements of all applicable Canadian provincial and territorial securities legislation, and imposing only those limitations on resale of Gross Settlement Shares in any Canadian province or territory that are substantially equivalent to those set forth in subsection (3) of section 2.6 of National Instrument 45-102 − Resale of Securities, together with all necessary comparable exemptive relief issued by each of the non-principal regulators (as such term is defined for the purposes of NI 12-201) that have opted out of the system for the application for

the aforementioned MRRS decision document (the "Exemptive Relief"), which Exemptive Relief shall be in form and substance satisfactory to Lead Plaintiff' s Counsel acting reasonably; or (B) a final MRRS decision document issued pursuant to National Policy 43-201 − Mutual Reliance Review System for Prospectuses and Annual Information Forms, or any successor, replacement or amending regulatory instrument, ("NI 43-201") evidencing that a receipt has been obtained for a final prospectus of Nortel relating to the Gross Settlement Shares in each Canadian province and territory where any Settlement Shares may be distributed, together with all necessary receipts for such final prospectus issued by each of the non-principal regulators (as such term is defined for purposes of NI 43-201) that have opted out of the Mutual Reliance Review System for such prospectus;

(2) (A) should it be necessary, a "no action" letter from the United States Securities and Exchange Commission with respect to the issuance, delivery and distribution of the Gross Settlement Shares in accordance with the terms of the Settlement pursuant to the exemption from registration set forth in Section 3(a)(10) under the (United States) Securities Act of 1933, 15 U.S.C. § 77c(a)(1), as amended (the "Securities Act") (if necessary, the "No Action Letter"); or (B) if a No Action Letter should be necessary and not be obtained, Nortel shall register the Gross Settlement Shares and

notice of effectiveness shall have been received confirming that the registration statement registering the Gross Settlement Shares under the Securities Act and filed with the United States Securities and Exchange Commission had been declared effective by such Commission;

(3) all required approvals from the New York Stock Exchange and the Toronto Stock Exchange with respect to the issuance, delivery and distribution of the Gross Settlement Shares in accordance with the terms of the Settlement (the "Stock Exchange Approvals"); and

(4) all required approvals under U.S. state securities or "blue sky" laws with respect to the issuance, delivery and distribution of the Gross Settlement Shares in accordance with the terms of the Settlement, including those with respect to the states of Arizona and New York ("Blue Sky Approvals");

(h) all conditions, if any, of the Exemptive Relief, the No Action Letter, the Stock Exchange Approvals and the Blue Sky Approvals, to the issuance and distribution of the Gross Settlement Shares, have been satisfied; and

(i) expiration of the time to exercise the termination rights provided in ¶ 25 hereof.

25. Lead Plaintiff, the Canadian Representative Plaintiffs and Nortel shall each have the right to terminate the Settlement and thereby this Stipulation by providing written notice of their or its election to do so ("Termination Notice") to one another hereto within thirty (30) days of any of the following: (a) the United States District Court for the Southern District of New

York declining to enter the Order for Notice and Hearing in any material respect; (b) any one of the Canadian Courts declining to enter orders, in any material respect, in the form set forth in Exhibits D and E; (c) any one of the Courts refusing to approve this Settlement as set forth in this Stipulation for one or more of the Nortel II Actions; (d) any one of the Courts declining to enter the corresponding Judgment for that court in any material respect; (e) the date upon which a Judgment is modified or reversed in any material respect by any level of appellate court; (f) the date upon which an Alternative Judgment is modified or reversed in any material respect by any level of appellate court; and (g) the date upon which the settlement in the Nortel I Actions is terminated; or (h) the conditions set forth in ¶ 24(i) and 24(j) hereof not having been satisfied prior to forty-five (45) calendar days after the latter of (i) entry of the last Final Judgment contemplated in ¶ 24 hereof or (ii) entry of the last final judgment in the Nortel I Actions.

26. Notwithstanding anything else in this Stipulation, Nortel may, in accordance with the terms set for in the Supplemental Agreement, and in its sole and unfettered discretion, elect in writing to terminate the Settlement and this Stipulation if the Opt-out Threshold is exceeded or as otherwise provided in the Supplemental Agreement.

27. In the event that there is non-delivery by Nortel of any of the Net Settlement Shares required to be delivered hereunder in accordance with ¶ 4(d) hereof, then Lead Plaintiff and the Canadian Representative Plaintiffs shall consult with one another and, in the event of consensus, may apply jointly to the Courts for orders at their option either terminating this Settlement as it applies to the Class, directing specific performance of Nortel' s obligation to issue and/or deliver such shares, or obtain such other available relief. In the event of non-consensus between Lead Plaintiff and the Canadian Representative Plaintiffs, each shall apply forthwith to their respective courts, on notice to one another, for an order either terminating this

Settlement as it applies to their class, directing specific performance of Nortel' s obligation to issue and/or deliver such shares, or obtain such other available relief. It is agreed that in the event that an Order is obtained on such an application from one court terminating the Settlement for one class, the Settlement shall be terminated for the balance of the Class and orders to that effect shall be sought on consent from the remaining Courts.

28. Except as otherwise provided herein, in the event the Settlement is terminated, the parties to this Stipulation shall be deemed to have reverted to their respective status in the Nortel II Actions immediately prior to the execution of this Stipulation and, except as otherwise expressly provided, the parties shall proceed in all respects as if this Stipulation and any related orders had not been entered. Furthermore, an amount equal to the Cash Settlement Amounts previously paid by Nortel and/or Nortel' s Insurers, as the case may be, shall be paid to Nortel and/or Nortel' s Insurers, as the case may be, including the amount transferred by the escrow agents in the Nortel I Actions to the Escrow Agent, together with any interest or other income earned thereon or in respect thereof, less any Taxes paid or due with respect to such income, less any amounts required to be paid to the Escrow Agent pursuant to the relevant escrow agreement, and less any reasonable costs of administration and notice actually incurred and paid or payable from the Cash Settlement Amount (as described in ¶ 7 hereof), less any applicable withholding taxes.

NO ADMISSION OF WRONGDOING

29. This Stipulation, whether or not consummated, and any proceedings taken pursuant to it:

(a) shall not be offered or received against any of the Nortel II Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of those defendants with respect to the truth of any fact alleged by any of the

plaintiffs or the validity of any claim that has been or could have been asserted in the Nortel II Actions or in any litigation, or the deficiency of any defense that has been or could have been asserted in the Nortel II Actions or in any litigation, or of any liability, negligence, fault, or wrongdoing of the Nortel II Defendants;

(b) shall not be offered or received against the Nortel II Defendants as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any of the Nortel II Defendants;

(c) shall not be offered or received against the Nortel II Defendants as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against any of the Nortel II Defendants, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of this Stipulation; provided, however, that if this Stipulation is approved by the Courts, Nortel II Defendants may refer to it to effectuate the liability protection granted them hereunder;

(d) shall not be construed against any of the Nortel II Defendants as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial;

(e) shall not be construed as or received in evidence as an admission, concession or presumption against Lead Plaintiffs, Canadian Representative Plaintiffs or any of the Class Members that any of their claims are without merit, or that any defenses asserted by the Defendants have any merit, or that damages recoverable under the Nortel II Actions would not have exceeded the Gross Settlement Fund; and

(f) shall not be construed as or received in evidence as an act of attornment to the jurisdiction of any court by Lead Plaintiffs or Canadian Representative Plaintiffs by reason of their participation or the participation of their respective counsel in proceedings taken pursuant to the Stipulation to approve the Settlement.

MISCELLANEOUS PROVISIONS

30. All of the exhibits attached hereto are hereby incorporated by reference as though fully set forth herein.

31. Nortel warrants as to itself that, as to the payments made by or on its behalf, at the time of such payment that it made or caused to be made pursuant to ¶ 4 hereof, it was not insolvent, nor did nor will the payment required to be made by or on behalf of it render it insolvent, within the meaning of and/or for the purposes of the (United States) Bankruptcy Code, including §§ 101 and 547 thereof. This warranty is made by Nortel and not by Nortel' s Counsel.

32. If a case is commenced in respect of any portion of the Settlement Amount (or any insurer contributing funds to the Insurers' Nortel I Cash Settlement Amount on behalf of any Nortel II Defendant) under Title 11 of the United States Code (Bankruptcy), or a trustee, receiver or conservator is appointed under any similar law, and in the event of the entry of a final order of a court of competent jurisdiction determining the transfer of money to the Gross Cash Settlement Fund or issuance of any Gross Settlement Shares or any portion thereof by or on behalf of such defendant to be a preference, voidable transfer, fraudulent transfer or similar transaction and any portion thereof is required to be returned, and such amount is not promptly deposited to the Gross Cash Settlement Fund or such shares are not issued by others, then, at the election of Lead Plaintiffs in respect of the Nortel II U.S. Action, and with respect to the Nortel II Canadian Actions at the election of Canadian Representative Plaintiffs, the parties shall jointly apply to the respective courts, as the case may be, to vacate and set aside the releases given and Judgments

entered in favor of the Nortel II Defendants pursuant to this Stipulation, and which releases and Judgments shall be null and void, and the parties shall be restored to their respective positions in the Nortel II Actions as of the date a day prior to the date of this Stipulation and any cash amounts in the Gross Cash Settlement Fund and any Gross Settlement Shares previously issued by Nortel shall be returned as provided in ¶ 28 hereof.

33. The parties to this Stipulation intend the Settlement to be a final and complete resolution of all disputes asserted or which could be asserted by the Class Members against the Released Parties with respect to the Settled Claims. Accordingly, Lead Plaintiffs, Canadian Representative Plaintiffs and Nortel agree not to assert in any forum that the Nortel II Actions were brought by the plaintiffs or defended by defendants in those actions in bad faith or without a reasonable basis. The parties hereto shall assert no claims of any violation of Rule 11 of the Federal Rules of Civil Procedure relating to the prosecution, defense, or settlement of the Nortel II Actions. The parties agree that the amount paid and the other terms of the Settlement were negotiated at arm' s length in good faith by the parties, and reflect a settlement that was reached voluntarily after consultation with experienced legal counsel.

34. This Stipulation may not be modified or amended, nor may any of its provisions be waived, except by a writing signed by all parties hereto or their successors-in-interest.

35. The headings herein are used for the purpose of convenience only and are not meant to have legal effect.

36. The administration and consummation of the Settlement as embodied in this Stipulation shall be under the authority of the United States District Court for the Southern District of New York and that Court shall retain jurisdiction for the purpose of entering orders providing for awards of attorneys' fees and expenses to Lead Plaintiff' s Counsel and enforcing

the terms of this Stipulation. Notwithstanding the foregoing, the Canadian Courts shall retain concurrent jurisdiction with respect to the administration, consummation and enforcement of the Settlement as embodied in this Stipulation and with respect to members of the corresponding Canadian Classes and shall retain jurisdiction for the purposes of entering orders providing for counsel fees and expenses to Canadian Class Counsel.

37. The waiver by one party of any breach of this Stipulation by any other party shall not be deemed a waiver of any other prior or subsequent breach of this Stipulation.

38. This Stipulation and its exhibits, the Supplemental Agreement, the various escrow agreements governing the cash contributions by Nortel and its insurers toward the Settlement, and the contemporaneous agreements with respect to Canadian Representative Plaintiffs confirming the application of this Stipulation to the Nortel II Canadian Actions constitute the entire agreement concerning the Settlement of the Nortel II Actions, and no representations, warranties, or inducements have been made by any party hereto concerning this Stipulation, its exhibits and the Supplemental Agreement other than those contained and memorialized in such documents.

39. This Stipulation may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument.

40. This Stipulation shall be binding upon, and inure to the benefit of, the successors and assigns of the parties hereto.

41. The construction and interpretation of this Stipulation and the Supplemental Agreement shall be governed by the internal laws of the State of New York without regard to conflicts of laws, except to the extent that federal law of the United States requires that federal law governs.

42. This Stipulation shall not be construed more strictly against one party than another merely by virtue of the fact that it, or any part of it, may have been prepared by counsel for one of the parties, it being recognized that it is the result of arm' s-length negotiations between the parties and all parties have contributed substantially and materially to the preparation of this Stipulation.

43. All counsel and any other person executing this Stipulation and any of the exhibits hereto, or any related settlement documents, warrant and represent that they have the full authority to do so and that they have the authority to take appropriate action required or permitted to be taken pursuant to the Stipulation to effectuate its terms.

44. Lead Plaintiffs, Canadian Representative Plaintiffs and Nortel agree to cooperate fully with one another in seeking Court approval of the Order for Notice and Hearing, the Stipulation and the Settlement, and to promptly agree upon and execute all such other documentation as may be reasonably required to obtain final approval by the Courts of the Settlement.

DATED: June 20, 2006

BERNSTEIN LITOWITZ BERGER & GROSSMANN LLP

By: /s/ Max W. Berger
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Lead Plaintiffs' Counsel

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Nortel' s Counsel

EXHIBIT A

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re NORTEL NETWORKS CORP. SECURITIES LITIGATION	:	Civil Action No. 05-MD-1659 (LAP)
	:	CLASS ACTION
This Document Relates To:	:	
ALL ACTIONS.	:	

PRELIMINARY ORDER FOR NOTICE AND HEARING IN CONNECTION WITH SETTLEMENT PROCEEDINGS

WHEREAS, on June 20, 2006, the parties to the above-entitled action (the "Action") entered into a Stipulation and Agreement of Settlement (the "Stipulation") which is subject to review under Rule 23 of the (United States) Federal Rules of Civil Procedure and which, together with the exhibits thereto, sets forth the terms and conditions for the proposed settlement of the claims alleged in the Complaint on the merits and with prejudice; and the Court having read and considered the Stipulation and the accompanying documents; and the parties to the Stipulation having consented to the entry of this Order; and all capitalized terms used herein having the meanings defined in the Stipulation;, and

WHEREAS, the Stipulation provides for the settlement and dismissal of the Canadian class proceedings identified in the Stipulation (the "Canadian Class Actions") and approval of the Settlement in the courts before which the Canadian Class Actions are pending (the "Canadian Courts") is also being sought; and

WHEREAS, it is a condition to the effectiveness of the proposed Settlement herein that additional putative class actions identified in the Stipulation brought against Nortel and certain of

the defendants herein in this District and in Canadian Courts (the "Nortel I/II Actions") also be settled and dismissed.

NOW, THEREFORE, IT IS HEREBY ORDERED, this _____ day of _____, 2006 that:

1. Pursuant to Rules 23(a) and (b)(3) of the (United States) Federal Rules of Civil Procedure, and for the purposes of the Settlement only, this Action is hereby certified as a class action on behalf of all persons and entities who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put option on Nortel common stock (collectively, "Nortel Securities") during the period between April 24, 2003 through April 27, 2004, inclusive (the "Class Period"), and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange (the "U.S. Global Class" or "U.S. Global Class Members"). Excluded from the U.S. Global Class are (i) the defendants; (ii) James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia); (iii) members of the immediate family of each of the defendants and/or any of the individuals referenced above; (iv) any entity in which any defendant and/or any of the individuals referenced above has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or director of Nortel or any of its subsidiaries or affiliates during the Class Period; and (vii) the legal representatives, heirs, predecessors, successors or assigns of any of the excluded persons or entities. Also excluded from the U.S. Global Class are any putative U.S. Global Class Members who exclude themselves by filing a request for exclusion in accordance with the requirements set forth in the Notice.

2. The Court finds, for the purposes of the Settlement only, that the prerequisites for a class action under Rules 23(a) and (b)(3) of the (United States) Federal Rules of Civil Procedure have been satisfied in that: (a) the number of U.S. Global Class Members is so numerous that joinder of all members thereof is impracticable; (b) there are questions of law and fact common to the U.S. Global Class; (c) the claims of the named representatives are typical of the claims of the U.S. Global Class they seek to represent; (d) the Lead Plaintiffs will fairly and adequately represent the interests of the U.S. Global Class; (e) the questions of law and fact common to the members of the U.S. Global Class predominate over any questions affecting only individual members of the U.S. Global Class; and (f) a class action is superior to other available methods for the fair and efficient adjudication of the controversy.

3. Pursuant to Rule 23 of the (United States) Federal Rules of Civil Procedure, and for the purposes of the Settlement only, Lead Plaintiffs Ontario Teachers' Pension Plan Board and the Department of the Treasury of the State of New Jersey and its Division of Investment are certified as Class Representatives.

4. A hearing (the "Settlement Fairness Hearing") pursuant to Rule 23(e) of the (United States) Federal Rules of Civil Procedure is hereby scheduled to be held before the Court on _____, 2006, at ___:___.m. for the following purposes:

(a) to finally determine whether this Action satisfies the applicable prerequisites for class action treatment under Rules 23(a) and (b) of the (United States) Federal Rules of Civil Procedure;

(b) to determine whether the proposed Settlement is fair, reasonable, and adequate, and should be approved by the Court;

(c) to determine whether the Judgment as provided under the Stipulation should be entered, dismissing the Complaint filed herein, on the merits and with prejudice, and to determine whether the release by the U.S. Global Class of the Settled Claims, as set forth in the Stipulation, should be provided to the Released Parties (as those terms are defined in the Stipulation);

(d) to determine whether the proposed Plan of Allocation for the proceeds of the Settlement is fair and reasonable, and should be approved by the Court;

(e) to consider Lead Plaintiffs' Counsel' s application for an award of attorneys' fees and for reimbursement of expenses to Plaintiffs' Counsel; and

(f) to rule upon such other matters as the Court may deem appropriate.

5. The Court recognizes and acknowledges that one consequence of the approval of the Settlement at the Settlement Fairness Hearing, which shall be open to everyone to whom any Gross Settlement Shares would be issued in the proposed Settlement, with adequate notice to be given to all those persons, is that, pursuant to Section 3(a)(10) of the (United States) Securities Act of 1933, as amended, 15 U.S.C. § 77c(a)(1), the Gross Settlement Shares may be distributed to Class Members (and to Plaintiffs' Counsel as may be awarded by the respective Courts) without registration and compliance with the prospectus delivery requirements of the U.S. securities laws as the Gross Settlement Shares will be exempt from registration under the (United States) Securities Act of 1933, 15 U.S.C. § 77c(a)(1), as amended, pursuant to Section 3(a)(10) thereunder. The Court further acknowledges that Nortel will rely on such 3(a)(10) exemption (and Nortel will not register the Gross Settlement Shares under the (United States) Securities Act of 1933) based on the Court' s approval of the fairness of the Settlement.

6. The Court reserves the right to approve the Settlement with or without modification and with or without further notice of any kind. The Court further reserves the right to enter its Judgment approving the Stipulation and dismissing the Complaint on the merits and with prejudice regardless of whether it has approved the Plan of Allocation or awarded attorneys' fees and expenses.

7. The Court approves the form, substance and requirements of the Notice of Pendency and Certifications of Class Actions and Proposed Settlements, Motions for Attorneys' Fees and Settlement Fairness Hearings (the "Notice") and the Proof of Claim form, annexed hereto as Tabs 1 and 2, respectively.

8. The Court approves the appointment of The Garden City Group Inc. ("GCG") as the Claims Administrator. Upon approval of the Notice and the Proof of Claim and the appointment of GCG as the Claims Administrator by each of the Canadian Courts ("Canadian Courts' Approval"), the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms annexed hereto as Tabs 1 and 2, to be mailed, by first class mail, postage prepaid, on or before _____ days after entry of the last order, whether by this Court, the Court in the Nortel I U.S. Action, or any of the Canadian Courts, approving the issuance of the Notice, to all U.S. Global Class Members who can be identified with reasonable effort. Notices that are addressed to persons or entities in Quebec shall be accompanied by a French language version of the Notice and Proof of Claim forms. Nortel shall cooperate in making Nortel' s transfer records and shareholder information available to the Claims Administrator no later than _____ days following entry of this Order for the purpose of identifying and giving notice to the U.S. Global Class. The Claims Administrator shall use reasonable efforts to give notice to nominee purchasers such as brokerage firms and other persons or entities who purchased Nortel common stock during the Class Period as record owners but not as beneficial owners. Such nominee purchasers are directed, within seven (7) days of their receipt of the Notice, to either forward copies of the Notice and Proof of Claim to their beneficial owners or to provide the Claims Administrator with lists of the names and addresses of the beneficial owners, and the Claims Administrator is ordered to send the Notice and Proof of Claim promptly to such identified beneficial owners. Nominee purchasers who elect to send the Notice and Proof of Claim to their beneficial owners shall send a statement to the Claims Administrator confirming that the mailing was made as directed. Additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund, upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proofs of Claim to beneficial owners. Lead Plaintiffs' Counsel shall, at or before the Settlement Fairness Hearing, file with the Court proof of mailing of the Notice and Proof of Claim.

9. The Claims Administrator or the Escrow Agent or their agents are authorized and directed to prepare any tax returns required to be filed on behalf of or in respect of the Gross Settlement Fund and to cause any Taxes due and owing to be paid from the Gross Settlement Fund, and to otherwise perform all obligations with respect to Taxes and any reporting or filings in respect thereof as contemplated by the Stipulation, without further order of the Court.

10. Lead Plaintiffs' Counsel shall submit their papers in support of final approval of the Settlement and application for attorneys' fees and reimbursement of expenses by no later than forty-five (45) calendar days after the date set for mailing of the Notice.

11. The Court approves the form of Publication Notice of the Pendency of this class action and the proposed settlement in substantially the form and content annexed hereto as Tab 3 and directs that Lead Plaintiffs' Counsel shall cause the Publication Notice to be published in Canada in accordance with the Notice Plan attached hereto as Tab 4, and the Publication Notice shall also be published in the U.S. on two different dates in the national editions of *The Wall Street Journal, USA Today*, and *The New York Times*, once in *Investor's Business Daily*, and once over the *PR Newswire*, which publications shall begin within seven (7) calendar days of the mailing of the Notice and in accordance with the Notice Plan. Lead Plaintiffs' Counsel shall, at or before the Settlement Fairness Hearing, file with the Court proof of the publication of the Publication Notice.

12. The form and content of the Notice, and the method set forth herein of notifying the Class of the Settlement and its terms and conditions, meet the requirements of Rule 23 of the (United States) Federal Rules of Civil Procedure, Section 21 D(a)(7) of the (United States) Securities Exchange Act of 1934, as amended, 15 U.S.C. 78u-4(a)(7), including by the (United States) Private Securities Litigation Reform Act of 1995 (the "PSLRA"), Rule 23.1 of the Local Rules of the Southern and Eastern Districts of New York, and due process, constitute the best notice practicable under the circumstances, and shall constitute due and sufficient notice to all persons and entities entitled thereto.

13. In order to be entitled to participate in the Net Settlement Fund, in the event the Settlement is effected in accordance with the terms and conditions set forth in the Stipulation, each Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim (the "Proof of Claim"), substantially in the form attached hereto as Tab 2, must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than one hundred twenty (120) days after the date set for mailing the Notice. Such deadline may be further extended by court order. Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of the Court approving distribution of the Net Settlement Fund. Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

(b) The Proof of Claim submitted by each Class Member must satisfy the following conditions: (i) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding subparagraph; (ii) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator; (iii) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Class Member must be included in the Proof of Claim; and (iv) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

(c) As part of the Proof of Claim, each Class Member shall submit to the jurisdiction of the applicable Court as set out in the Stipulation with respect to the claim submitted, and shall (subject to effectuation of the Settlement) release all Settled Claims as provided in the Stipulation.

14. U.S. Global Class Members shall be bound by all determinations and judgments in this Action, whether favorable or unfavorable, unless such persons request exclusion from the Class in a timely and proper manner, as hereinafter provided. A U.S. Global Class Member wishing to make such request shall mail the request in written form by first class mail postmarked no later than sixty (60) calendar days after the date set for the mailing of the Notice to the address designated in the Notice. Such request for exclusion shall clearly indicate the name, address and telephone number of the person seeking exclusion, that the sender requests to be excluded from the U.S. Global Class, and must be signed by such person. Such persons requesting exclusion are also directed to state: the date(s), price(s), and number(s) of shares of all purchases and sales of Nortel common stock, call options on Nortel common stock and put options on Nortel common stock during the Class Period. The request for exclusion shall not be effective unless it provides the required information and is made within the time stated above, or the exclusion is otherwise accepted by the Court.

15. Comments and/or objections to the Settlement, the Plan of Allocation, or the application by Lead Plaintiffs' Counsel for an award of attorneys' fees and reimbursement of expenses and any supporting papers should be mailed, on or before sixty (60) days after the date set for mailing of the Notice, to GCG at the address set forth in the Notice. Attendance at the hearing is not necessary; however, persons wishing to be heard orally in opposition to the approval of the Settlement, the Plan of Allocation, and/or the request by Lead Plaintiffs' Counsel for attorneys' fees are required to indicate in their written objection their intention to appear at the hearing. Persons who intend to object to the Settlement, the Plan of Allocation, and/or Lead Plaintiffs' Counsel' s application for an award of attorneys' fees and expenses and desire to present evidence at the Settlement Fairness Hearing must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the Settlement Fairness Hearing. U.S. Global Class Members do not need to appear at the hearing or take any other action to indicate their approval.

16. Lead Plaintiffs' Counsel shall submit their reply papers, if any, in support of final approval of the Settlement and application for attorneys' fees and reimbursement of expenses by no later than seventy-five (75) calendar days after the date set for mailing of the Notice.

17. Any U.S. Global Class Member who does not object to the Settlement and/or the Plan of Allocation, and any Class Member who does not object to Lead Plaintiffs' Counsel' s application for an award of attorneys' fees and reimbursement of litigation expenses in the manner prescribed in the Notice shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, adequacy or reasonableness of the proposed Settlement, the Order and Final Judgment to be entered approving the Settlement, the Plan of Allocation or the application by Lead Plaintiffs' Counsel for an award of attorneys' fees and reimbursement of expenses.

18. Pending final determination of whether the Settlement should be approved, the Lead Plaintiffs, all U.S. Global Class Members, and each of them, and anyone who acts or purports to act on their behalf, shall not institute, commence or prosecute any action which asserts Settled Claims against any Released Party. The foregoing shall not be interpreted to apply to proceedings in respect of the seeking of approval of the Settlement in the Canadian Courts.

19. As provided in the Stipulation, Lead Plaintiffs' Counsel may pay the Claims Administrator the reasonable fees and costs associated with giving notice to the Class and the review of claims and administration of the Settlement out of the Gross Settlement Fund without further order of the Court.

20. If (a) the Settlement is terminated by Nortel pursuant to ¶ 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and Lead Plaintiffs' Counsel, Canadian Representative Plaintiffs' Counsel or Nortel elect to terminate the Settlement as provided in ¶ 25 of the Stipulation; or (c) if the Settlement is terminated pursuant to ¶ 27 of the Stipulation, then, in any such event, the terms of ¶ 28 of the Stipulation including any amendment(s) thereof, shall apply, and this Preliminary Order certifying the Class and the

Class Representatives for purposes of the Settlement shall be null and void, of no further force or effect, and without prejudice to any party, and may not be introduced as evidence or referred to in any actions or proceedings by any person or entity, and each party shall be restored to his, her or its respective position as it existed immediately prior to the execution of the Stipulation.

21. The Court retains jurisdiction over the Action to consider all further matters arising out of or connected with the Settlement.

Dated: New York, New York
July 28, 2006

UNITED STATES DISTRICT JUDGE

EXHIBIT A-1

NOTICE OF PENDENCY AND CERTIFICATIONS OF CLASS ACTIONS AND PROPOSED SETTLEMENTS, MOTIONS FOR ATTORNEYS' FEES AND SETTLEMENT FAIRNESS HEARINGS (NORTEL II NOTICE)

This Notice relates to the following actions (the "Nortel II Actions"):

In Re Nortel Networks Corp. Securities Litigation, Master File No. 04 Civ. 2115 (LAP) in the United States District Court for the Southern District of New York;

Gallardi v. Nortel Networks Corporation, No. 05-CV-285606CP in the Ontario Superior Court of Justice;

Skarstedt v. Corporation Nortel Networks, No. 500-06-000277-059 in the Superior Court of Quebec District of Montreal;

If you bought Nortel Networks Corporation ("Nortel") common stock or call options on Nortel common stock, or you wrote (sold) put options on Nortel common stock, during the period April 24, 2003 through April 27, 2004, inclusive (the "Class Period"), your rights may be affected by class action lawsuit(s) and you may be entitled to a payment from a proposed class action settlement.

Courts in the United States and Canada have authorized this notice.
This is not a solicitation from a lawyer.

The "Settlement" described herein will provide total proceeds worth approximately $___, including $370,157,418 in cash, plus 314,333,875 shares of common stock of Nortel ("Settlement Shares"), having an aggregate market value as of **[date]** of approximately $___, for the benefit of the Class. described herein (*See* response to question 1 below defining the "Class" and "Class Members"). Unless otherwise stated, all dollar amounts referenced herein are in U.S. dollars.

In addition, Nortel will adopt the corporate governance provisions described in Appendix A of this Notice. Nortel will also contribute to the Class one-quarter of the recovery, if any, it obtains in existing litigation by Nortel against certain former senior corporate officers.

The Settlement resolves lawsuits over whether Nortel misled investors about its historic and future earnings during the Class Period. The Settlement is contingent upon court-approval of the settlement of several related actions against Nortel and other defendants in the United States and Canada (the "Nortel II Actions").

Your legal rights are affected whether you act or do not act. Read this notice carefully.

YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT:

SUBMIT A CLAIM FORM BY [November 30, 2006]	The only way to get a distribution from the Net Settlement Fund and Net Settlement Shares.

Le présent avis est aussi disponible en français. Vous pouvez l' obtenir sans frais en vous adressant à [Claim administrator + Web site] ou à Trudel & Johnston.

EXCLUDE YOURSELF (Opt-out of the Class) BY [September 15, 2006]	Get no payment. This is the only option that allows you to ever be part of any other lawsuit against Nortel and the other Released Parties about the Settled Claims (as those terms are defined in the response to question 12 below).
OBJECT BY [September 15, 2006]	Write to the Court(s) about why you do not like the Settlement, Plan of Allocation, or Attorneys' Fee Applications. See responses to questions 18, 20 and 22 below.
GO TO HEARINGS	Ask to speak in Court(s) about the Settlement, Plan of Allocation, or Attorneys' Fee Applications. See responses to questions 18, 20 and 22 below.
DO NOTHING	Get no payment. Give up rights.

These rights and options − **and the deadlines to exercise them** - are explained in this notice.

The Courts in charge of the various U.S. and Canadian actions subject to this Settlement still have to decide whether to approve the Settlement. Payments will be made if all of the Courts approve the Settlement and after appeals, if any, are resolved. Please be patient.

SUMMARY NOTICE

Statement of Plaintiff Recovery

Pursuant to the Settlement described herein, a Settlement Fund consisting of $370,157,418 in cash has been established, and 314,333,875 shares of Nortel common stock, will be provided for the benefit of the Class. Lead Plaintiffs estimate that there were approximately 2.9 billion shares of Nortel common stock traded during the Class Period which may have been damaged. Lead Plaintiffs estimate that the average recovery per damaged share of Nortel common stock purchased during the Class Period under the Settlement is 10.7¢ in cash and 0.127 Settlement Shares, per damaged share[1] before deduction of Court-awarded attorneys' fees and expenses, and

[1] An allegedly damaged share might have been traded more than once during the Class Period, and the indicated average recovery would be the total for all purchasers of that share.

the costs of administration. Class Members who transacted in options on Nortel common stock may also receive a payment from the Settlement Fund, but the various terms of those options and available records concerning such option transactions do not permit a useful estimate to be provided concerning the number of affected options or the recovery on those option transactions. See response to question 9 below concerning payments to Class Members. A Class Member' s actual recovery will be determined in accordance with the Plan of Allocation set forth on page ___below.

Statement of Potential Outcome of Case

The parties strongly disagree on both liability and damages and do not agree on the average amount of damages per share that would be recoverable if plaintiffs were to have prevailed on each claim alleged.

Plaintiffs estimated that the potential damages to the Classes in the Nortel II Actions and in certain similar actions relating to a earlier class period (see response to question 8 below describing these "Nortel I Actions") could well have been in excess of the Gross Settlement Fund (as defined in response to question 1 below). The defendants deny that they are liable to the plaintiffs or the Class and deny that plaintiffs or the Class have suffered any damages.

Statement of Attorneys' Fees and Costs Sought

As more fully described in response to question 17 below, plaintiffs' counsel are moving before their respective Courts for awards of attorneys' fees and for reimbursement of expenses incurred in the prosecution of their Actions as follows:

Lead Plaintiffs' Counsel in the U.S. Action are moving for an award to counsel of attorneys' fees in cash and shares in an amount not to exceed ten percent (10%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the U.S. Action in an amount not to exceed $4.3 million.

Ontario National Class Counsel will move before the Ontario Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point seven percent (0.7%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the Ontario National Action in an amount not to exceed $225,000.

Quebec Class Counsel will move before the Quebec Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point forty five percent (0.45%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the Quebec Action in an amount not to exceed $150,000.

The total requested attorneys fees and litigation expenses would amount to an average of 1.5¢ in cash and 0.012 Settlement Shares, per damaged share in total for fees and expenses. Application will also be made for reimbursement to the Lead Plaintiffs, Ontario Teachers' Pension Plan

Board and the Department of the Treasury of the State of New Jersey and its Division of Investment each for an amount not to exceed $30,000, for reimbursement of their reasonable costs and expenses (including lost wages) directly relating to their representation of the "U.S. Global Class" (as defined in response to question 1 below).

Further Information

Further information may be obtained by contacting the following counsel:

For the U.S. Action: Lead Plaintiff' s Counsel: Jeffrey N. Leibell, Esq., Bernstein Litowitz Berger & Grossmann LLP, 1285 Avenue of the Americas, New York, New York 10019.

For the Ontario National Action: Ontario National Class Counsel: Joel P. Rochon, Rochon Genova LLP, 121 Richmond Street West, Suite 900, Toronto, Ontario M5H 2K1.

For the Quebec Action: Quebec Class Counsel: Philippe H. Trudel, Trudel & Johnston, 85 de la Commune East, 3rd Floor, Montreal, Quebec H2Y 1J1.

Reasons for the Settlement

Plaintiffs' principal reason for the Settlement is the benefit to be provided to the Class now. This benefit must be compared to the risk that no recovery might be achieved after a contested trial and likely appeals, possibly years into the future, and the further significant risk that even if the plaintiffs and the Class successfully obtained a substantial judgment (after years of additional litigation and appeals) the defendants might not be able to pay an amount significantly greater than the value of the Gross Settlement Fund.

Lead Plaintiffs and Lead Plaintiffs' Counsel, in consultation with their investment banking and economic damages experts, considered the Company' s current and anticipated financial condition, and also considered the extent of the Company' s applicable insurance and the likely depletion of that insurance as a result of continued litigation, both of which, in their view, limited the amount that might have been recovered for-the U.S. Global Class after trial.

[END OF COVER PAGE]

WHAT THIS NOTICE CONTAINS

Table of Contents

BASIC INFORMATION

1. Why did I get this notice package?

You or someone in your family may have purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive. Such purchasers may be members of the Classes in the Nortel II Actions (as defined below) and are generally referred to herein as "Class Members" and are collectively referred to as the "Class." Class Members include members of the "U.S. Global Class," the "Ontario National Class," and/or the "Quebec Class."

The Courts have directed that this Notice be sent to Class Members because they have a right to know about their options prior to the Courts deciding whether to approve the settlement of these lawsuits, and to understand how a class action lawsuit may generally affect their rights. If the Courts approve the Settlement, and after any objections and appeals are resolved, an administrator appointed by the Courts will make the payments that the Settlement allows.

This package explains the lawsuits, the Settlement, Class Members' legal rights, what benefits are available, who is eligible for them, and how to get them.

The Courts in charge of the Nortel II Actions are as follows:

Court	Action
United States District Court for the Southern District of New York ("U.S. Court")	*In re Nortel Networks Corp. Securities Litigation*, Master File No. 04 Civ. 2115 (LAP) ("U.S. Action")
Ontario Superior Court of Justice ("Ontario Court")	*Gallardi v. Nortel Networks Corp*., No. 05-CV-285606CP ("Ontario National Action")
Superior Court of Quebec, District of Montreal ("Quebec Court")	*Skarstedt v. Corporation Nortel Networks*, No. 500-06-000277-059 ("Quebec Action")

The entities who sued are called the plaintiffs, and the company and the persons they sued, Nortel and certain of its officers and directors, are called the defendants.

The Settlement in the U.S. Action resolves the claims on behalf of persons or entities, wherever located, who bought Nortel common stock or call options on Nortel common stock or who wrote (sold) put options on Nortel common stock during the period April 24, 2003 through April 27, 2004, inclusive, and suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange (the "U.S. Global Class"). In addition, the Settlement covers the two Canadian actions referred to above (the "Canadian Actions"). The Settlement in the Canadian Actions resolve the claims on behalf of the following persons and entities:

> Ontario National Class: All persons or entities, except members of the Quebec Class, who while residing in Canada at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between April 24, 2003 through April 27, 2004, inclusive.
>
> Quebec Class: All persons or entities who, while residing in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between April 24, 2003 through

April 27, 2004, inclusive. For purposes of the definition of Quebec Class, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm' s length with the representative of the Quebec Class. Other entities may be members of the Ontario National Class.

Members of the classes certified in the Canadian Actions who suffered damages as a result of their Class Period transactions in Nortel securities are also members of the U.S. Global Class.

Regardless of how many classes you are a member of, you will not be entitled to recover more than once for your claim.

2. What are these lawsuits about?

Nortel is a Canadian corporation with its principal executive offices located in Brampton, Ontario, Canada and has offices located throughout the United States and Canada. Nortel filed annual, quarterly and other reports with the Ontario Securities Commission and the (United States) Securities and Exchange Commission (the "SEC") and its common stock is listed and traded on both the Toronto Stock Exchange and the New York Stock Exchange under the symbol NT. Nortel is engaged in the business of providing networking and communication services to customers located in over 150 countries.

On September 10, 2004, Lead Plaintiffs in the U.S. Acton filed a Consolidated Class Action Complaint (the "Complaint"), which alleged that Nortel and certain of its former officers perpetrated a fraud on the investing public by improperly accounting for the Company' s reserve accounts, reversing millions of dollars into income to make the market believe that Nortel had returned to profitability, when, in fact, it had not.

Lead Plaintiffs filed their Second Amended Consolidated Class Action Complaint (the "Second Amended Complaint") on September 16, 2005 based on Lead Plaintiffs' Counsel' s extensive discovery efforts, which included a targeted review of a substantial amount of the approximately 21 million pages of documents produced by Nortel alone. In addition to the above, the Second Amended Complaint alleged that the members the Audit Committee of Nortel' s Board of Directors (the "Audit Committee Defendants") violated Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder by issuing materially false and misleading statements during the Class Period in a scheme to artificially inflate the value of Nortel publicly-traded securities. Specifically, Lead Plaintiffs alleged that the Audit Committee Defendants disregarded the warning provided to them by Nortel' s auditors, Deloitte & Touche LLP ("D&T'), that Nortel was reversing hundreds of millions of dollars of reserves into income at the same time that Nortel' s projected losses turned into profits, and that the Audit Committee Defendants ignored D&T' s recommendation that Nortel institute a rigorous review of its remaining balance sheet provisions, choosing instead to approve numerous financial disclosures reporting positive earnings results and a premature restatement that deceived investors as to Nortel' s true financial condition.

Similar factual allegations and claims are made in the Canadian Actions under Canadian law. The defendants deny that they violated any laws or did anything wrong. Defendants believe that their actions were proper under the U.S. federal securities laws and applicable Canadian law, assert that they are not liable to the plaintiffs or the Class, and have asserted several affirmative defenses to the allegations in the Complaints.

3. Why are these class actions?

In a class action, one or more people, called class representatives, sue on behalf of people who have similar claims. All these people are a class or class members. Bringing a case, such as this one, as a class action allows uniform adjudication of many similar claims of persons and entities that might be economically too small to bring in individual actions. One court resolves the issues for all class members, except for those who exclude themselves from the class.

In these Nortel II Actions the class representatives are:

Nortel II Action	Class Representatives
U.S. Action	Ontario Teachers' Pension Plan Board and the Department of the Treasury of the State of New Jersey and its Division of Investment
Ontario National Action	Peter Gallardi
Quebec Action	Clifford W. Skarstedt

4. Why is there a Settlement?

The parties recognized that the claims asserted in the Nortel I Actions, as well as in the Nortel II Actions, if ultimately proved by the plaintiffs in those actions, could have resulted in Judgments that exposed defendants to substantial damage awards. Plaintiffs recognized that, even if they were successful in obtaining judgments against Nortel and the other defendants, there was a significant risk that such judgments would not be fully collectible. Nortel recognized that the continued defense of the Nortel I Actions and the Nortel II Actions would require significant attention of its management and would distract Nortel from pursuing its business affairs, and that a plaintiffs' judgment could be a very significant impediment to Nortel' s future success. Accordingly, the parties considered that a resolution of the Nortel I Actions and the Nortel II Actions was advisable.

The Courts have not finally decided in favor of the plaintiffs or the defendants. Instead, all parties agreed to a settlement. That way, they avoid the risks and cost of trial, the people affected will get compensation, and Nortel will be released of burdensome and distracting

litigation that potentially could be a significant impediment to Nortel' s future success. The Class Representatives and their counsel think the Settlement is fair, reasonable and adequate, and in the best interests of, all Class Members.

WHO IS IN THE SETTLEMENT

To see if you will get cash and Nortel common stock from this Settlement, you first have to decide if you are a Class Member.

5. How do I know if I am part of the Settlement?

The U.S. Court decided for the purposes of the proposed Settlement in the U.S. Action that everyone who fits the following description is a Class Member: *all persons and entities who purchased Nortel common stock, who purchased call options on Nortel common stock, or who wrote (sold) put options on Nortel common stock (the "Nortel Securities") during the period between April 24, 2003 through April 27, 2004, inclusive (the "Class Period") and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange*. The U.S. Global Class is not limited to U.S. residents.

The two Canadian Courts generally decided for the purposes of the proposed Settlement that everyone residing in Canada who fits the following description will be Class Members: *all persons and entities who purchased Nortel common stock, who purchased call options on Nortel common stock, or who wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive.* To determine which specific Canadian Class you might be part of, please see the definitions of Ontario National Class and Quebec Class above in the response to question 1. Unlike the requirements for membership in the U.S. Global Class, there is no requirement for you to have suffered damages to be a member of Ontario National Class, or Quebec Class.

6. Are there exceptions to being included?

Excluded from the Class are (i) Nortel, Frank Dunn, Douglas C. Beatty, Michael J. Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr.; (ii) James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia); (iii) members of the immediate family of each of the defendants and/or any of the individuals referenced above; (iv) any entity in which any defendant and/or any of the individuals referenced above has a controlling interest; (v) any parent, subsidiary or affiliate of

Nortel; (vi) any person who was an officer or director or Nortel or any of its subsidiaries or affiliates during the Class Period; and (vii) the legal representatives, heirs, predecessors, successors or assigns of any of the excluded persons or entities (the "Excluded Persons").

If one of your mutual funds owned shares of Nortel common stock during the Class Period, that alone does not make you a Class Member. You are a Class Member only if you directly purchased shares of Nortel common stock, purchased call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the Class Period. Contact your broker to see if you purchased shares of Nortel common stock, purchased call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the Class Period.

If you ***sold*** Nortel common stock, ***sold*** call options on Nortel common stock, or ***purchased*** put options on Nortel common stock during the Class Period that alone does not make you a Class Member. You are a Class Member only if you ***purchased*** Nortel common stock, ***purchased*** call options on Nortel common stock, or ***wrote (sold)*** put options on Nortel common stock during the Class Period.

7. What if I am still not sure I am included?

If you are still not sure whether you are included, you can ask for free help. You can call 1-800-___-___or visit [***www._____.com***] for more information. Or you can fill out and return the Proof of Claim form described in response to question 10 below, to see if you qualify. Note, however, that if you return a Proof of Claim form you will be releasing all your "Settled Claims" against the "Released Parties." (See response to question 12 below.)

THE SETTLEMENT BENEFITS – WHAT YOU GET

8. What does the Settlement provide?

In exchange for the Settlement and/or dismissal of the Nortel H Actions, Nortel and its insurers agreed to create cash settlement funds for the benefit of the Class herein consisting of $370,157,418 in cash, which is earning interest, and Nortel agreed to issue 314,333,875 Settlement Shares of its common stock, having an aggregate market value as of **[date]** of [$_____], to be divided, after fees and expenses as awarded by the Courts, among all Class Members who submit valid Proof of Claim forms. Nortel has also agreed to share with the Class 25% of any actual gross recovery obtained in existing litigation against certain former Nortel officers (the "Contingent Recovery"). The cash, Settlement Shares, and Contingent Recovery, and any interest or dividends earned thereon, are referred to as the "Gross Settlement Fund."

In addition, Nortel will adopt the corporate governance provisions in Appendix A to this Notice.

A separate lawsuit, *In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01 Civ. 1855 (RMB) (S.D.N.Y.) and related Canadian actions in Ontario, Quebec and British Columbia (the "Nortel I Actions"), are also being settled on behalf of investors who

purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period **October 24, 2000 through February 15, 2001, inclusive (the "Nortel I Class Period")**, including, but not limited to, those persons or entities who traded in such Nortel securities on the New York Stock Exchange and/or the Toronto Stock Exchange. The settlement in the Nortel I Actions will provide $438,667,428 in cash and 314,333,875 Settlement Shares to the members of the Classes in the Nortel I Actions. It is a condition of both the Settlement in the Nortel II Actions and the settlement in the Nortel I Actions that the Settlement be approved by each of the Courts in all of the actions. The Settlement is also contingent upon appropriate securities regulatory and stock exchange approvals.

9. How much will my payment be?

The amount of your payment and Settlement Shares will depend on the number of valid Proof of Claim forms that Class Members send in, how many shares of Nortel common stock you bought, the number of call options on Nortel common stock you bought, and the number of put options on Nortel common stock you wrote (sold), and when you bought and sold them.

The value of the Settlement Shares is expected to fluctuate over time and is not guaranteed. No representation can be made as to what the value of the Settlement Shares may be at the time the Settlement Shares are distributed to Class Members who submitted acceptable Proofs of Claim. Class Members receiving Settlement Shares who may be deemed to be "affiliates" of Nortel, within the meaning of (United States) federal securities laws, would be subject to certain limitations on the resale of Settlement Shares as provided in Rule 145 under the (United States) Securities Act of 1933, as amended, 15 U.S.C. § 77c(a)(1). Any Class Member who might be deemed to be an affiliate should consult with counsel as to these limitations. In addition, the resale of the Settlement Shares in Canada may be subject to certain limitations under Canadian securities laws, which may affect some Class Members.

You can calculate your Recognized Claim in accordance with the formula shown below in the Plan of Allocation. It is unlikely that you will get a payment for all of your Recognized Claim. After all Class Members have sent in their Proof of Claim forms, the payment you get in cash and Nortel common stock will be part of the Net Cash Settlement Fund and a part of the Net Settlement Shares equal to your Recognized Claim divided by the total of everyone' s Recognized Claims. *See* the Plan of Allocation on page [___] for more information on how your Recognized Claim will be determined. Payments to members of the Quebec Class may be subject to deductions pursuant to Quebec law payable to the *Fonds d' aide aux recours collectifs* of Quebec.

HOW YOU GET A PAYMENT – SUBMITTING A PROOF OF CLAIM FORM

10. How can I get a payment?

To qualify for a payment, you must send in a Proof of Claim form. A Proof of Claim form is being circulated with this Notice. You may also get a Proof of Claim form on the Internet at [**www._____.com**]. Read the instructions carefully, fill out the Proof of Claim form, include all the documents the form asks for, sign it, and mail it, by first class mail, postmarked no later than _____, **2006**.

11. When will I get my payment?

The U.S. Court will hold a hearing on _____, **2006**, to decide whether to approve the Settlement. Settlement approval hearings will be held in the Canadian Actions on dates shown below in the response to question 20. The Courts in the Nortel I Actions will also hold hearings in the same time frame as these hearings. Approval of settlement of the Nortel I Actions is also a condition to the Settlement of these actions. If all the Courts approve the Settlement, there may be appeals. It is always uncertain whether these appeals can be resolved, and resolving them can take time, perhaps more than a year. It also takes time for all the Proofs of Claim to be processed. After conclusion of the approval hearings, any appeals, and claims processing, the funds and Settlement Shares will be distributed. Please be patient.

12. What am I giving up to get a payment or stay in the Class?

Unless you validly request exclusion ("opt out"), you are staying in the Class, and that means that, upon the "Effective Date," you will release all "Settled Claims" (as defined below) against the "Released Parties" (as defined below).

"Settled Claims" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or unmatured, whether class or individual in nature, including both known claims and Unknown Claims (herein defined), (i) that have been asserted in any of the Nortel II Actions against any of the Released Parties, or (ii) that could have been asserted in any forum by the Class Members or any of them against any of the Released Parties which arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Nortel II Actions and which relate to the purchase of Nortel common stock or call options on Nortel common stock or the writing (sale) of put options on Nortel common stock during the Class Period, or (iii) any oppression or other claims under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the Nortel II Actions. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the (United States) *Employee Retirement Income Security Act of 1974*, as amended, 29 U.S.C. § 1001, *et seq*. ("ERISA") that are not common to

all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include: (a) the action in *Rohac et al. v. Nortel Networks Corp. et al.*, Ontario Superior Court of Justice, Court File No. 04-CV-3268 and (b) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the Canada Business Corporations Act to commence a representative action in the name of and on behalf of Nortel against certain of the Released Parties.

"Released Parties" means any and all of the defendants in the Nortel II Actions (namely: Nortel, Frank Dunn, Douglas C. Beatty, Michael J. Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr., and Deloitte & Touche LLP), their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any defendants in the Nortel II Actions has a controlling interest or which is related to or affiliated with any of the defendants in the Nortel II Actions, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the defendants in the Nortel II Actions.

"Unknown Claims" means any and all Settled Claims which any of the Lead Plaintiffs, Canadian Representative Plaintiffs, or Class Members do not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties, which if known by him, her or it might have affected his, her or its decision(s) with respect to the Settlement. With respect to any and all Settled Claims, the parties stipulate and agree that, upon the Effective Date, the Lead Plaintiff, Canadian Representative Plaintiffs shall expressly waive, and each Class Member shall be deemed to have waived, and by operation of the Judgments shall have expressly waived, any and all provisions, rights and benefits conferred by any law of any state, province or territory of the United States or Canada, or principle of common law, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

Lead Plaintiff, Canadian Representative Plaintiffs and Nortel acknowledge, and Class Members by operation of law shall be deemed to have acknowledged, that the inclusion of "Unknown Claims" in the definition of Settled Claims was separately bargained for and was a key element of the Settlement.

In addition, upon the Effective Date of the Settlement, all Class Members on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors

and assigns, with respect to each and every Settled Claim, release and forever discharge, and be forever enjoined from prosecuting, any Settled Claims against any of the Released Parties, and shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit, cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date.

The "Effective Date" will occur when Orders entered by all the Courts approving the Settlement in the Nortel I Actions and the Nortel II Actions become final and not subject to appeal and when all conditions of the Stipulation have been met.

If you remain a member of the Class, the applicable Court' s orders will apply to you and legally bind you.

REQUESTING EXCLUSION ("OPTING OUT") FROM THE SETTLEMENT

If you do not want a payment from this Settlement, but you want to keep any right you may have on your own to sue or continue to sue Nortel and the other Released Parties about the Settled Claims, then you must take steps to get out of the Class. This process is called excluding yourself from − or is sometimes referred to as "opting out" of– the Class. Nortel may withdraw from and terminate the Settlement if persons or entities who would otherwise be Class Members, and who purchased in excess of a certain amount of Nortel common stock, opt out of the Class.

13. How do I get out of the proposed Settlement?

To opt out of the Class, you must send a signed letter by mail stating that you "request exclusion from the Class in the *Nortel II Securities Litigation*". Your letter should include the date(s), price(s), and number(s) of shares of all purchases and sales of Nortel common stock and/or Nortel common stock options during the Class Period. In addition, be sure to include your name, address, telephone number, and your signature. You must mail your exclusion request by first class mail postmarked no later than _____, **2006** to:

Nortel II Securities Litigation Exclusions
c/o The Garden City Group, Inc. Claims Administrator
P.O. Box 0000
City, ST 00000-0000

You cannot exclude yourself by telephone or by e-mail. If you ask to be excluded, you will not get any settlement payment, and you cannot object to the Settlement. You will not be legally bound by anything that happens in these Nortel II Actions, and you may be able to sue (or continue to sue) Nortel and the other Released Parties in the future.

14. If I do not exclude myself, can I sue Nortel and the other Released Parties for the same thing later?

No. Unless you exclude yourself, you give up any rights to sue Nortel and the other Released Parties for any and all Settled Claims. If you have a pending lawsuit, speak to your lawyer in that case immediately. You must exclude yourself from the Class to continue your own lawsuit. Remember, the exclusion deadline is 2006.

15. If I exclude myself, can I get a payment from the proposed Settlement?

No. If you exclude yourself, do not send in a Proof of Claim form to ask for any money or shares. But, you may exercise any right you may have to sue, continue to sue, or be part of a different lawsuit against Nortel and the other Released Parties.

THE LAWYERS REPRESENTING YOU

16. Do I have a lawyer in this case?

The following firms represent Class Members:

For the U.S. Action: Lead Plaintiffs' Counsel Bernstein Litowitz Berger & Grossmann LLP, 1285 Avenue of the Americas, New York, New York 10019, together with Lowenstein Sandler P.C., 65 Livingston Avenue, Roseland, New Jersey 07068;

For the Ontario National Action: Rochon Genova LLP, 121 Richmond Street West, Suite 900, Toronto, Ontario M5H 2K1 and Lerners LLP, 130 Adelaide Street West, Suite 2400, Toronto, Ontario M5H 3P5;

For the Quebec Action: Trudel & Johnston s.e.n.c., 85 de la Commune East, 3rd Floor, Montreal, Quebec H2Y 1J1;

These lawyers are called Class Counsel. You will not be separately charged for these lawyers. The U.S. Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the U.S. Action. The Ontario Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the Ontario National Action. The Quebec Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the Quebec Action. All lawyers' fees and expenses awarded by the respective Courts will be paid from the Gross Settlement Fund. Class Members may, but are not required to, hire their own lawyers at their own expense.

17. How will the lawyers and the Class Representatives be paid?

Plaintiffs' counsel are moving before their respective Courts for awards of fees and for reimbursement of expenses incurred in the prosecution of their Actions as follows:

Lead Plaintiffs' Counsel in the U.S. Action, are moving before the U.S. Court for an award to counsel of attorneys' fees in cash and shares in an amount not to exceed ten percent (10%) of the Gross Settlement Fund after deducting litigation expenses awarded by the U.S. Court, and for reimbursement of expenses incurred in connection with the prosecution of the U.S. Action in an amount not to exceed $4,300,000. Plaintiffs' counsel have agreed that, notwithstanding the terms of their retainer agreement with Lead Plaintiffs, two large public pension funds, which sets a fee of approximately 12.5% of the Gross Settlement Fund, they will seek a fee no greater than 10%. Lead Plaintiffs' Counsel has not advised the Lead Plaintiffs with respect to their review of a proposed fee application or their determination as to whether the Lead Plaintiffs should approve a proposed fee application, including the amount thereof, in whole or in part.

Ontario National Class Counsel will move before the Ontario Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point seven percent (0.7%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the Ontario National Action in an amount not to exceed $225,000.

Quebec Class Counsel will move before the Quebec Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point forty five percent (0.45%) of the Gross Settlement Fund and for reimbursement of expenses incurred in connection with the prosecution of the Quebec Action in an amount not to exceed $150,000

Plaintiffs' counsel, without further notice to the Class, may subsequently apply to the appropriate Court for fees and expenses incurred in connection with administering and distributing the settlement proceeds to the members of the Class and any proceedings subsequent to the hearings.

Application will also be made for reimbursement to the Lead Plaintiffs, Ontario Teachers' Pension Plan Board and the Department of the Treasury of the State of New Jersey and its Division of Investment each for an amount not to exceed $30,000, for reimbursement of their reasonable costs and expenses (including lost wages) directly relating to their representation of the U.S. Global Class.

OBJECTING TO THE SETTLEMENT, PLAN OF ALLOCATION AND APPLICATIONS FOR ATTORNEYS' FEES AND REIMBURSEMENT OF LITIGATION EXPENSES

If you are a Class Member, you can tell the Courts that you do not agree with the Settlement, or some part of it, the proposed Plan of Allocation, and/or any of the applications for attorneys' fees and reimbursement of litigation expenses.

18. How do I tell the Courts that I do not like the Settlement, the proposed Plan of Allocation, and/or the applications for attorneys' fees and reimbursement of litigation expenses?

Any Class Member, no matter where he, she or it resides, can object to the Settlement, or any of its terms, to the proposed Plan of Allocation, and/or to any of the applications by plaintiffs' counsel for awards of fees and expenses. You may write to the Claims Administrator setting out your objection. You may give reasons why you think the Settlement terms or arrangements, the proposed Plan of Allocation, and/or any of the applications for attorneys' fees or expenses, should not be approved by the Courts addressing those matters. The Claims Administrator will provide copies of your objections to each of the Courts and to counsel for all the parties. The Courts will consider your views if you provide your objection to the Claims Administrator within the deadline identified and you are a member of the class certified by the court. However, it is in the discretion of each of the Courts whether to consider the objections filed by members of the other classes not certified by that Court.

Although it is up to each Court whether to hear the oral objections of persons who are members of other classes not certified by that Court, if you are a member of one or more of the classes described herein, and you wish to present your views in person or through a lawyer to a particular Court, you should follow the procedures for submitting objections set forth in this response, and in the response to question 22 below.

To object to the Settlement, the proposed Plan of Allocation, and/or any of the applications for attorneys' fees and expenses in these Nortel II Actions, you should send a signed letter stating that you object to the Settlement, the proposed Plan of Allocation, and/or the applications by one or more of plaintiffs' counsel for awards of attorneys' fees and expenses in the *In re Nortel II Securities Litigation*. Be sure to include your name, address, telephone number, and your signature, identify the date(s), price(s), and number(s) of shares of all purchases and sales of Nortel common stock and/or Nortel common stock options you made during the period April 24, 2003 through April 27, 2004, inclusive, and state the reasons why you object to the Settlement, the proposed Plan of Allocation, and/or any or all of the applications by plaintiffs' counsel for awards of attorneys' fees and expenses. Your objection must be must be mailed to the Claims Administrator at the following address, on or before _____, 2006:

Nortel II Securities Litigation Objections
c/o The Garden City Group, Inc., Claims Administrator
P.O. Box _____
_____, ___ _____

You do not need to go to any of the Settlement Fairness Hearings to have your written objection considered by the appropriate Court(s). At the Settlement Fairness Hearings, any Class Member who has not previously submitted a request for exclusion from the Class and who has complied with the procedures set out in this response and the response to question 22 below for filing with the Court(s) and providing to the counsel for plaintiffs and defendants a statement of an intention to appear at the Settlement Fairness Hearing(s) may also appear and be heard, to the extent allowed by the applicable Court(s), to state any objection to the Settlement, the Plan of Allocation or plaintiffs' counsel' s motions for awards of legal fees and reimbursement of expenses. Any such objector so appearing may appear in person or arrange, at that objector' s expense, for a lawyer to represent the objector at the Hearing(s).

Any Class Member who does not object to the Settlement, the Plan of Allocation, and/or any application for an award of attorneys' fees and reimbursement of litigation expenses in the manner prescribed above shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, adequacy or reasonableness of the proposed Settlement, the Order and Final Judgment to be entered approving the Settlement, the Plan of Allocation or the applications for awards of attorneys' fees and reimbursement of expenses.

19. What is the difference between objecting and excluding?

Objecting is simply telling the Court that you do not like something about the proposed Settlement. You can object only if you stay in the Class. Excluding yourself is telling the Court that you do not want to be part of the Class. If you exclude yourself, you have no basis to object because the case no longer affects you.

THE SETTLEMENT FAIRNESS HEARINGS

The Courts will hold hearings to decide whether to approve the proposed Settlement. You may attend and you may ask to speak, but you do not have to.

20. When and where will the Courts decide whether to approve the proposed Settlement?

The Courts will hold Settlement Fairness/Approval Hearings as follows:

in the U.S. Action: at _____:_____ ___.m. on _____ day, _____, 2006, at the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, New York, NY.

in the Ontario National Action: at _____:_____ ___.m. on _____ day, _____, 2006, at the Ontario Superior Court of Justice, 361 University Avenue, Toronto, Ontario.

in the Quebec Action: at _____:_____ ___.m. on _____ day, _____, 2006, at the Superior Court of Quebec, District of Montreal, 1 Notre-Dame East, Montreal, Quebec.

At these hearings, each Court will consider whether the Settlement is fair and reasonable and satisfies the legal requirements in each jurisdiction. At the Settlement Fairness Hearings, each Court also will consider the proposed Plan of Allocation for the proceeds of the Settlement. In addition, the U.S. Court will consider the fee and expense application by plaintiffs' counsel in the U.S. Action, and the respective Canadian Courts will consider the fee and expense applications by plaintiffs' counsel in the Canadian Actions. The Courts will take into consideration any written objections filed in accordance with the instructions shown at question 18. The Courts also may listen to people who have properly indicated, within the deadline identified above, an intention to speak at the hearing(s); however, decisions regarding the conduct of the hearing(s) will be made by the appropriate Court. See response to question 22 for

more information about speaking at the hearing(s). After each hearing, each Court will decide whether to approve the Settlement. If the Courts approve the Settlement, each Court may also decide how much to pay to plaintiffs' counsel appearing in the Nortel I or Nortel II Action before it. Only the U.S. Court will decide the amount of fees and expenses to be awarded to plaintiffs' counsel in the U.S. Action, and only the respective Canadian Courts will decide the amount of fees and expenses to be awarded to plaintiffs' counsel in the Canadian Actions. It is not known how long these decisions will take.

You should be aware that any of the Courts may change the date(s) and time(s) of the Settlement Fairness Hearings. Thus, if you want to come to any of the hearings, you should check with plaintiffs' counsel before coming, to be sure that the date(s) and/or time(s) have not changed.

21. Do I have to come to any of the Settlement Fairness Hearings?

No. Plaintiffs' counsel will answer questions any of the Courts may have. However, you are welcome to come at your own expense. If you send an objection, you do not have to come to Court to talk about it. As long as you filed your written objection on time, the Court(s) will consider it. You may also pay your own lawyer to attend, but it is not necessary. Class Members do not need to appear at any hearing or take any other action to indicate their approval.

22. May I speak at the Settlement Fairness Hearings?

If you object to the Settlement, the Plan of Allocation and/or the application(s) by any counsel for an award of attorneys' fees and expenses, you may ask the appropriate Court for permission to speak at the Settlement Fairness Hearing(s). To do so, you must include with your objection (see question 18 above) a statement stating that it is your "Notice of Intention to Appear" in the appropriate Nortel II Action. Persons who intend to object to the Settlement, the Plan of Allocation, and/or plaintiffs' counsel' s applications for awards of legal fees and reimbursement of expenses and desire to present evidence at the Settlement Fairness Hearing(s) must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the Settlement Fairness Hearing(s). You may not be entitled to speak at the Settlement Fairness Hearing(s) if you excluded yourself from the Class, if you are not a member of the class in which the Court is holding the Settlement Fairness Hearing, or if you have not provided written notice of your intention to speak at the Settlement Fairness Hearing(s) by the deadline identified and in accordance with the procedures described in response to question 18 and this response.

IF YOU DO NOTHING

23. What happens if I do nothing at all?

If you do nothing, you will get no money or shares from this Settlement, and you will be precluded from starting a lawsuit, continuing with a lawsuit, or being part of any other lawsuit against Nortel and the other Released Parties about the Settled Claims, ever again. To share in the Net Settlement Fund you must submit a Proof of Claim form (*see* question 10). To start, continue or be a part of any other lawsuit against Nortel and the other Released Parties about the Settled Claims you must have properly excluded yourself from the Class in accordance with the procedures set forth in this Notice (*see* questions 13 − 15).

GETTING MORE INFORMATION

24. Are there more details about the proposed Settlement?

This Notice summarizes the proposed Settlement. More details are set forth in a Stipulation and Agreement of Settlement dated _____, 2006 (the "Stipulation"). You can get a copy of the Stipulation by writing to appropriate Class Counsel, as set forth in "Further Information," above, by visiting [***www._____.com***], or by contacting the Claims Administrator at:

Nortel II Securities Litigation Settlement
c/o The Garden City Group, Inc., Claims Administrator
P.O. Box 0000
City, ST 00000-0000
1-800-____-_____ toll free
[www._____.***com***]

where you will find answers to common questions about the Settlement, a Proof of Claim form, plus other information to help you determine whether you are a Class Member and whether you are eligible for a payment.

25. How do I get more information?

For even more detailed information concerning the matters involved in this Nortel II Action, reference is made to the pleadings, to the Stipulation and Settlement Agreements, to the Orders entered by the respective Courts and to the other papers filed in the Nortel II Actions, which may be inspected, during regular business hours, as follows:

In the U.S. Action: at the Office of the Clerk, United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, New York, NY.

In the Ontario National Action: at the Civil Court Office, Ontario Superior Court of Justice, 393 University Avenue, 10th Floor, Toronto, Ontario.

In the Quebec Action: at the Office of the Special Clerk, Superior Court of Quebec, 1 Notre-Dame East, Montreal, Quebec.

PLAN OF ALLOCATION OF SETTLEMENT PROCEEDS AMONG CLASS MEMBERS

The $370,157,418 Cash Settlement Amount plus any Contingent Recovery, and the interest earned thereon, and the 314,333,875 Settlement Shares of Nortel common stock shall be the Gross Settlement Fund. The Gross Settlement Fund, less all taxes, approved costs, fees and expenses (the "Net Settlement Fund") shall be distributed to members of the Class who submit acceptable Proofs of Claim ("Authorized Claimants").

The Claims Administrator shall determine each Authorized Claimant' s *pro rata* share of the cash and Settlement Shares in the Net Settlement Fund based upon each Authorized Claimant' s "Recognized Claim." The Recognized Claim formula is not intended to be an estimate of the amount of what a Class Member might have been able to recover after a trial; nor is it an estimate of the amount that will be paid to Authorized Claimants pursuant to the Settlement. The Recognized Claim formula is the basis upon which the Net Settlement Fund will be proportionately allocated to the Authorized Claimants.

The proposed Plan of Allocation generally measures the amount of loss that a Class Member can claim under the Settlement for the purpose of making pro-rata allocations of the cash and Settlement Shares in the Net Settlement Fund to Class Members who submit acceptable Proofs of Claim. The following proposed Plan of Allocation reflects plaintiffs' allegations that the price of Nortel common stock was inflated artificially during the Class Period due to misrepresentations regarding Nortel' s revenue and earnings. On March 10, 2004, after the market close, Nortel issued a press release announcing that it was delaying the filing of its 2003 Form 10-K and might restate its results for 2003. On March 15, 2004, before the market opened, Nortel announced that it had placed its CFO and controller on paid leave, and replaced them with interim appointments, effective immediately. On April 28, 2004, before the market opened, Nortel announced that it would restate and revise 2003 and prior-year financial results, and would delay the release of its first-quarter results. It further stated that it expected reductions of about 50% of 2003 earnings and that its CFO and controller, who had been appointed on a temporary basis, had been made permanent, and the former CFO and controller "have been terminated for cause." The reaction to each of these announcements in the marketplace was swift. Nortel' s stock price declined from its $6.88 closing price on March 10, 2004 on the New York Stock Exchange to a closing price of $6.37 per share on March 11, 2004 – a decline of 7%. Nortel' s stock again declined from a closing price of $6.43 on March 12, 2004 to a closing price of $5.24 on March 15, 2004 – a decline of 19%. Another decline accompanied Nortel' s third disclosure, with Nortel' s stock plunging 28% from a closing price of $5.64 on April 27, 2004 to a closing price of $4.05 on April 28, 2004. Plaintiffs estimated that a total of approximately $2.90 per share, or 42%, of the $6.88 closing price on March 10, 2004 represented the artificial inflation caused by the Defendants' alleged misrepresentations. (Note: Nortel' s common stock price did not bounce back above a $4.05 average price in the 90-day period following the end of the Class Period; accordingly, no reduction of the claimed damages is required under the (United States) Private Securities Litigation Reform Act.)

An Authorized Claimant' s "Recognized Claim" will be calculated for purposes of the Settlement as follows:

To the extent a claimant had a gain from his, her or its overall transactions in Nortel common stock and/or Nortel put and call options during the Class Period, the value of the Recognized Claim will be zero. Such claimants will in any event be bound by the Settlement. You may wish to consider this when deciding to opt out.

Common Stock Purchases

1. For shares of Nortel common stock purchased between April 24, 2003 and March 10, 2004, inclusive, and:

   a. sold at a loss prior to March 11, 2004, the Recognized Claim is the lesser of (x) $0.29 per share, which is 10%[2] of the inflation at the time of purchase ($2.90 per share), or (y) 10% of the difference between the purchase price and the sales price.

   b. sold at a loss between March 11, 2004 and March 12, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus the sales price; or (ii) $0.44 per share.

   c. sold at a loss between March 15, 2004 and April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus the sales price; or (ii) $1.48 per share.

   d. held as of the close of business on April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus $4.05; or (ii) $2.90 per share.

2. For shares of Nortel common stock purchased between March 11, 2004 and March 12, 2004, inclusive, and:

   a. sold at a loss prior to March 15, 2004, the Recognized Claim is the lesser of (x) $0.25, which is 10%[3] of the inflation at the time of purchase ($2.46 per share), and (y) 10% of the difference between the purchase price and the sales price.

   b. sold at a loss between March 15, 2004 and April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus the sales price; or (ii) $1.04 per share.

   c. held as of the close of business on April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus $4.05; or (ii) $2.46 per share.

3. For shares of Nortel common stock purchased between March 15, 2004 and April 27, 2004, inclusive, and:

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[2] Class members who sold Nortel common stock at a loss prior to the close of trading on March 10, 2004 before the disclosures made on March 11, 2004 would face a potential defense that their loss was not related to the alleged misrepresentations because the same alleged misrepresentations affected both their purchase and their sale. The discount to 10% reflects this greater difficulty.

[3] Class members who purchased Nortel common stock on March 11 and 12, 2004 and who sold those shares of Nortel common stock at a loss prior to the close of trading on March 12, 2004 (before the disclosures made on March 15, 2004) would face a potential defense that their loss was not related to the alleged misrepresentations because the same alleged misrepresentations affected both their purchase and their sale. The discount to 10% reflects this greater difficulty.

a. sold at a loss between March 15, 2004 and April 27, 2004, the Recognized Claim is the lesser of (x) $0.14, which is 10%[3] of the inflation at the time of purchase ($1.42 per share), or (y) 10% of the difference between the purchase price and the sales price.

b. held as of the close of business on April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus $4.05; or $1.42 per share.

Put and Call Options

The total recovery payable to Authorized Claimants from transactions in call or put options shall not exceed five percent (5%) of the Net Settlement Fund.

Call Option Purchases

1. For call options purchased between April 24, 2003 and March 10, 2004:

a. No claim will be recognized for any Nortel call options purchased between April 24, 2003 and March 10, 2004 that were not owned as of the close of trading on March 10, 2004.

b. For call options purchased between April 24, 2003 and March 10, 2004 and owned as of the close of trading on March 10, 2004, an Authorized Claimant' s Recognized Claim shall be the lesser of (a) 50% of the difference, if a loss, between (x) the amount paid for the call options (including brokerage commissions and transaction charges) and (y) the sum for which said call options were subsequently sold at a loss (after brokerage commissions and transaction charges (or $0.00 if the call option expired while still owned by the Authorized Claimant), or (b) $1.45 per share covered by such call options (i.e., 50% of the $2.90 maximum per common share claim for this loss).

c. No loss shall be recognized based on a sale or writing of any call option that was subsequently repurchased.

d. Shares of Nortel acquired during the Class Period through the exercise of a call option shall be treated as a purchase on the date of exercise for the exercise price plus the cost of the call option, and any Recognized Claim arising from such transaction shall be computed as provided for other purchases of common stock.

1. For call options purchased between March 11, 2004 and March 12, 2004:

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[4] Class members who purchased Nortel common stock between March 15, 2004 and April 27, 2004 and who sold those shares of Nortel common stock at a loss prior to the close of trading on April 27, 2004 (before the disclosures made on April 27, 2004) would face a potential defense that their loss was not related to the alleged misrepresentations because the same alleged misrepresentations affected both their purchase and their sale. The discount to 10% reflects this greater difficulty.

a. No claim will be recognized for any Nortel call options purchased between March 11, 2004 and March 12, 2004 that were not owned as of the closed of trading on March 12, 2004.

b. For Nortel call options purchased between March 11, 2004 and March 12, 2004 and owned as of the close of trading on March 12, 2004, an Authorized Claimant' s Recognized Claim shall be the lesser of (a) 50% of the difference, if a loss, between (x) the amount paid for the call options (including brokerage commissions and transaction charges) and (y) the sum for which said call options were subsequently sold at a loss (after brokerage commissions and transaction charges (or $0.00 if the call option expired while still owned by the Authorized Claimant), or (b) $1.23 per share covered by such call options (*i.e.*, 50% of the $2.46 maximum per common share claim for this loss).

c. No loss shall be recognized based on a sale or writing of any call option that was subsequently repurchased.

d. Shares of Nortel acquired during the Class Period through the exercise of a call option shall be treated as a purchase on the date of exercise for the exercise price plus the cost of the call option, and any Recognized Claim arising from such transaction shall be computed as provided for other purchases of common stock.

2. For call options purchased between March 15, 2004 and April 27, 2004:

a. No claim will be recognized for any Nortel call options purchased between March 15, 2004 and April 27, 2004 that were not owned as of the closed of trading on April 27, 2004.

b. For Nortel call options purchased between March 15, 2004 and April 27, 2004 and owned as of the close of trading on April 27, 2004, an Authorized Claimant' s Recognized Claim shall be the lesser of (a) 50% of the difference, if a loss, between (x) the amount paid for the call options (including brokerage commissions and transaction charges) and (y) the sum for which said call options were subsequently sold at a loss (after brokerage commissions and transaction charges (or $0.00 if the call option expired while still owned by the Authorized Claimant), or (b) $0.71 per share covered by such call options (*i.e.*, 50% of the $1.42 maximum per common share claim for this loss).

c. No loss shall be recognized based on a sale or writing of any call option that was subsequently repurchased.

d. Shares of Nortel acquired during the Class Period through the exercise of a call option shall be treated as a purchase on the date of exercise for the exercise price plus the cost of the call option, and any Recognized Claim arising from such transaction shall be computed as provided for other purchases of common stock.

Put Option Sales

For Nortel put options sold (written) during the Class Period that expired unexercised, an Authorized Claimant' s Recognized Claim shall be $0.00.

1. For put options sold (written) between April 24, 2003 and March 10, 2004:

   a. No claim will be recognized for Nortel put options sold (written) between April 24, 2003 and March 10, 2004 which were not the obligation of the Authorized Claimant as of the close of trading on March 10, 2004.

   b. For Nortel put options sold (written) between April 24, 2003 and March 10, 2004 that were the obligation of the Authorized Claimant at the close of trading on March 10, 2004, an Authorized Claimant' s Recognized Claim shall be the lesser of (a) the difference, if a loss, between (x) the amount received for writing the put option (net of brokerage commissions and transaction charges) and (y) the sum for which said put options were repurchased at a loss after the close of trading on March 10, 2004 (including brokerage commissions and transaction charges) or (b) $2.90 per share covered by such put options.

   c. For Nortel put options written between April 24, 2003 and March 10, 2004 that were "put" to the Authorized Claimant (*i.e.*, exercised), the Authorized Claimant' s Recognized Claim shall be calculated as a purchase of common stock as shown above, and as if the sale of the put option were instead a purchase of Nortel common stock on the date of the sale of the put option, and the "purchase price paid" shall be the strike price less the proceeds received on the sale of the put option.

   d. No loss shall be recognized based on a sale of any put option that was previously purchased.

2. For put options sold (written) between March 11, 2004 and March 12, 2004:

   a. No claim will be recognized for any Nortel put options sold (written) between March 11, 2004 and March 12, 2004 that were not the obligation of the claimant as of the close of trading on March 12, 2004.

   b. For Nortel put options sold (written) between March 11, 2004 and March 12, 2004 that were the obligation of the Authorized Claimant at the close of trading on March 12, 2004, an Authorized Claimant' s Recognized Claim shall be the lesser of (a) the difference, if a loss, between (x) the amount received for writing the put option (net of brokerage commissions and transaction charges) and (y) the sum for which said put option was repurchased at a loss after the close of trading on March 12, 2004 (including brokerage commissions and transaction charges) or (b) $2.46 per share covered by such put option.

   c. For Nortel put options written between April 24, 2003 and March 10, 2004 that were "put" to the Authorized Claimant (*i.e.*, exercised), the Authorized Claimant' s Recognized Claim shall be calculated as a purchase of common stock as shown

above, and as if the sale of the put option were instead a purchase of Nortel common stock on the date of the sale of the put option, and the "purchase price paid" shall be the strike price less the proceeds received on the sale of the put option.

d. No loss shall be recognized based on a sale of any put option that was previously purchased.

3. For put options sold (written) between March 15, 2004 and April 27, 2004:

a. No claim will be recognized for any Nortel put option sold (written) between March 15, 2004 and April 27, 2004 that was not the obligation of the claimant as of the close of trading on April 27, 2004.

b. For Nortel put options sold (written) between March 15, 2004 and April 27, 2004 that were the obligation of the Authorized Claimant at the close of trading on April 27, 2004, an Authorized Claimant' s Recognized Claim shall be the lesser of (a) the difference, if a loss, between (x) the amount received for writing the put option (net of brokerage commissions and transaction charges) and (y) the sum for which said put options were repurchased at a loss after the close of trading on April 27, 2004 (including brokerage commissions and transaction charges) or (b) $1.42 per share covered by such put options.

c. For Nortel put options written between March 15, 2004 and April 27, 2004 that were "put" to the Authorized Claimant (*i.e.*, exercised), the Authorized Claimant' s Recognized Claim shall be calculated as a purchase of common stock as shown above, and as if the sale of the put option were instead a purchase of Nortel common stock on the date of the sale of the put option, and the "purchase price paid" shall be the strike price less the proceeds received on the sale of the put option.

d. No loss shall be recognized based on a sale of any put option that was previously purchased.

In the event a Class Member has more than one purchase or sale of Nortel common stock and/or Nortel common stock options, all purchases and sales shall be matched on a First In First Out ("FIFO") basis, Class Period sales will be matched first against any Nortel shares and/or options held at the beginning of the Class Period, and then against purchases in chronological order, beginning with the earliest purchase made during the Class Period. Purchases and sales of Nortel common stock and options shall be deemed to have occurred on the "contract" or "trade" date as opposed to the "settlement" or "payment" date. The receipt or grant by gift, devise or operation of law of Nortel common stock and/or options during the Class Period shall not be deemed a purchase or sale of these Nortel securities for the calculation of an Authorized Claimant' s Recognized Claim nor shall it be deemed an assignment of any claim relating to the purchase of such Nortel securities unless specifically provided in the instrument of gift or assignment. The receipt of Nortel common stock during the Class Period in exchange for securities of any other corporation or entity shall not be deemed a purchase or sale of Nortel common stock.

Each Authorized Claimant shall be allocated *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim as compared to the total

Recognized Claims of all Authorized Claimants. Each Authorized Claimant shall be paid an amount determined by multiplying the total cash or Settlement Shares, respectively, in the Net Settlement Fund, by a fraction the numerator of which shall be his, her or its "Recognized Claim" and the denominator of which shall be the Total Recognized Claims of all Authorized Claimants. This computation weighs each Class Member' s claim against every other Class Member' s claim. Each Authorized Claimant will receive *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim.

The amount of a Class Member' s Recognized Claim as computed above is not intended to be an estimate of what a Class Member might have been able to recover at trial, and it is not an estimate of the amount that will be paid pursuant to this Settlement. Instead, this computation is only a method to weight Class Members' claims against one another. Each Authorized Claimant will receive *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim.

To the extent a Claimant had a gain from his, her or its overall transactions in Nortel common stock and/or Nortel put and call options during the Class Period, the value of the Recognized Claim will be zero. Such claimants will in any event be bound by the Settlement. To the extent that a Claimant suffered an overall loss on his, her or its overall transactions in Nortel common stock and/or options during the Class Period, but that loss was less than the Recognized Claim calculated above, then the Recognized Claim shall be limited to the amount of the actual loss.

For purposes of determining whether a Claimant had a gain from his, her or its overall transactions in Nortel common stock during the Class Period or suffered a loss, the Claims Administrator shall: (i) total the amount the Claimant paid for all Nortel common stock and Nortel options purchased during the Class Period, and the cost or amount paid to repurchase or close after the Class Period any Nortel put options written by the Claimant during the Class Period that were open obligations of the Claimant at the end of the Class Period (the "Total Purchase Amount"); (ii) match any sales of Nortel common stock or options during the Class Period first against the Claimant' s opening position in the stock (the proceeds of those sales will not be considered for purposes of calculating gains or losses); (iii) total the amount received for sales of the remaining shares of Nortel common stock and any options sold during the Class Period (the "Sales Proceeds"); and (iv) ascribe a $4.05 per share holding value for the number of shares of Nortel common stock purchased during the Class Period and still held at the end of the Class Period and add the value at the end of Class period of any call options still held by the Claimant at the end of the Class Period ("Holding Value"). The difference between (x) the Total Purchase Amount ((i) above) and (y) the sum of the Sales Proceeds ((iii) above) and the Holding Value ((iv) above) will be deemed a Claimant' s gain or loss on his, her or its overall transactions in Nortel common stock during the Class Period.

Class Members who do not submit acceptable Proofs of Claim will not share in the settlement proceeds. Class Members who do not either submit a request for exclusion or submit an acceptable Proof of Claim will nevertheless be bound by the Settlement and the Judgment of the Court dismissing the Nortel II Actions.

Distributions will be made to Authorized Claimants after all claims have been processed and after the Courts have finally approved the Settlement. If any funds remain in the Net Settlement

Fund by reason of un-cashed distributions or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distributions, any balance remaining in the Net Settlement Fund one (1) year after the initial distribution of such funds shall be re-distributed to Class Members who have cashed their initial distributions and who would receive at least $10.00 from such re-distribution, after payment of any unpaid costs or fees incurred in administering the Net Settlement Fund for such re-distribution. If after six months after such re-distribution any funds shall remain in the Net Settlement Fund, then such balance shall be contributed proportionally to United States and Canadian non-sectarian, not-for-profit organizations designated by plaintiffs' counsel (and in the case of any relevant settlement shares, by transfer of such shares to such organization) after notice to the. Courts and subject to direction, if any, by the Courts.

Plaintiffs, defendants, their respective counsel, and all other Released Parties shall have no responsibility for or liability whatsoever for the investment or distribution of the Settlement Fund, the Net Settlement Fund, the Plan of Allocation or the determination, administration, calculation, or payment of any Proof of Claim or non-performance of the Claims Administrator, the payment or withholding of taxes owed by the Settlement Fund, or any losses incurred in connection therewith.

Any payment required to be made to the *Fonds d' aide aux recours collectifs* of Quebec shall be paid by the Claims Administrator from the funds allocable to such members of the Quebec Class.

SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES

If you purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive for the beneficial interest of a person or organization other than yourself, the United States District Court has directed that, WITHIN SEVEN (7) DAYS OF YOUR RECEIPT OF THIS NOTICE, you either (a) provide to the Claims Administrator the name and last known address of each person or organization for whom or which you purchased or sold such stock and/or options during such time period or (b) request additional copies of this Notice and the Proof of Claim form, which will be provided to you free of charge, and within seven (7) days mail the Notice and Proof of Claim form directly to the beneficial owners of such stock and/or options. If you choose to follow alternative procedure (b), the Court has directed that, upon such mailing, you send a statement to the Claims Administrator confirming that the mailing was made as directed. You are entitled to reimbursement from the Gross Settlement Fund of your reasonable expenses actually incurred in connection with the foregoing, including reimbursement of postage expense and the cost of ascertaining the names and addresses of beneficial owners. Those expenses will be paid upon request and submission of appropriate supporting documentation. All communications concerning the foregoing should be addressed to the Claims Administrator:

Nortel II Securities Litigation Settlement
c/o The Garden City Group, Inc., Claims Administrator
P.O. Box _____

_____, __ _____
(800) ____-_____

Dated: _____, 2006

By Order of the Courts

APPENDIX "A"

NORTEL: CORPORATE GOVERNANCE PROVISIONS

Corporate Governance Enhancements

A. The following are the corporate governance enhancements that Nortel Networks Corporation ("Nortel") has agreed to implement:

1) Nortel will amend its Statement of Governance Guidelines (the "Governance Statement") to explicitly provide that the non-executive Chair (the "Chair") of Nortel' s Board of Directors (the "Board") shall have adequate support staff to carry out the Chair' s responsibilities.

2) Nortel will amend its Governance Statement and the mandates of the Board and the Board committees to explicitly provide for in camera or executive sessions at every Board and Board committee meeting, whether such meetings are conducted in-person or telephonically.

3) The Board will adopt a formal policy in 2006 to provide guidance to directors on the number of outside public boards on which a director may serve. The Board may take into account various factors in making its determination, including number of meetings and work plan of additional boards, committee memberships, industry and geographic location.

4) Nortel will amend the fourth page, first non-indented paragraph, first sentence of the current mandate of Nortel' s Compensation and Human Resources Committee (formerly the Joint Leadership Resources Committee, the "CHRC") to read:

> Subject as hereinafter provided, the committee shall have sole authority over the engagement of compensation consultants, including over the terms and conditions of such engagements.

5) Nortel will disclose in its annual proxy circular and proxy statement the names of comparator companies used for purpose of pay setting and performance comparisons.

6) The CHRC will include the results of comparator companies in determining its compensation practices and philosophy in consultation with the independent compensation consultants to the CHRC.

7) The CHRC intends to establish its. compensation structures and policies in line with best practices. The CHRC will consult with its independent compensation consultants regularly to review the current state of affairs on best practices in the various areas of executive and other employee compensation, including with respect to the relative balance between annual and long-term compensation.

8) The CHRC will not utilize pro forma or adjusted financial metrics to assess performance and pay incentives except in extraordinary circumstances, and in consultation with the independent compensation consultants to the CHRC and Nortel' s Audit Committee.

9) The CHRC will disclose in Nortel' s annual proxy circular and proxy statement pay for performance measures and the time period(s) used to assess management' s performance, except that confidential or competitive information will not be disclosed.

10) The CHRC will require that all executives' employment agreements include a clawback provision that entitles the company to take back compensation, or declare compensation not owed, in the case of fraud.

11) Nortel will amend the mandate of the Board to formalize the Board' s current practice of electing the Chair on an annual basis.

12) Nortel will require that all committees of the Board must meet at least once a year.

13) Any material deviation from Nortel' s Governance Statement will be disclosed in the Report on Governance in the annual proxy circular and proxy statement.

B. The following are either current practices of Nortel or practices that Nortel was in the process of adopting at the time that negotiations with Lead Plaintiffs as to corporate governance enhancements began, and which Lead Plaintiffs have demanded be memorialized as part of this Settlement, and which Nortel has either implemented or has agreed to implement:

1) Commencing with 2006, Nortel will prepare a forward agenda for the Board, as well as each committee of the Board, at the beginning of each fiscal year. Each forward agenda will identify the decisions and actions to be presented to the Board or committee for the ensuing year as prescribed by the mandate of the Board or of the applicable committee.

2) Nortel currently conducts an annual assessment of the Board, its committees, individual directors and the Chair and reports those results to the Board. Nortel will describe this review process in its annual proxy circular and proxy statement.

3) Nortel' s Nominating and Governance Committee (formerly the Committee on Directors, the "Committee") will adopt, each year, general procedures which the Committee will follow for the purpose of identifying Board candidates. These procedures will be sufficiently flexible to permit the Committee to respond to current circumstances as well as to the requirements of the Canada Business Corporations Act, the stock exchanges and applicable securities laws regarding the election and appointment of directors. These procedures will be adopted for candidate identification and the appointment of new directors to the Board.

4) Nortel is in the process of amending the Committee' s mandate to explicitly identify that the Committee is responsible for director succession planning.

5) Nortel is in the process of formalizing and expanding its director orientation and education program.

6) The CHRC generally will not grant enhanced pension arrangements except in extraordinary circumstances and in consultation with its independent compensation consultants.

7) The CHRC agrees with the policy of not layering incentive plans on top of other incentive plans by reason of an unlikely payout under another existing plan.

C. Lead Plaintiffs are invited to address the chairman of Nortel' s Board and the Committee no later than four months after the Effective Date with respect to certain additional governance proposals, who will in turn discuss those proposals with the Board. The Board will then consider those proposals in good faith and act accordingly.

EXHIBIT A-2

PROOF OF CLAIM AND RELEASE

This Proof of Claim and Release relates to the following actions (the "Nortel II Actions"):

In Re Nortel Networks Corp. Securities Litigation, Master File No. 04 Civ. 21 15 (LAP) in the United States District Court for the Southern District of New York;

Gallardi v. Nortel Networks Corporation, No. 05-CV-285606CP in the Ontario Superior Court of Justice; and

Skarstedt v. Corporation Nortel Networks, No. 500-06-000277-059 in the Superior Court of Quebec District of Montreal.

DEADLINE FOR SUBMISSION: ___, 2006.

IF YOU PURCHASED NORTEL NETWORKS CORPORATION ("NORTEL") COMMON STOCK OR CALL OPTIONS ON NORTEL COMMON STOCK OR WROTE (SOLD) PUT OPTIONS ON NORTEL COMMON STOCK ("NORTEL SECURITIES") DURING THE PERIOD BETWEEN APRIL 24, 2003 THROUGH APRIL 27, 2004, INCLUSIVE ("CLASS PERIOD"), YOU MAY BE A "CLASS MEMBER" ENTITLED TO SHARE IN THE PROCEEDS OF A SETTLEMENT.

NOTE: If you also purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the period between October 24, 2000 through February 15, 2001, inclusive, then you should have also received another Notice and **you should also submit a separate Proof of Claim for those securities on the [COLOR] Proof of Claim form relating to a separate class action covering that time period (copies of that [COLOR] form are available from [Claims Administrator]. This [ANOTHER COLOR] Proof of Claim should be submitted with respect to only your purchases during the** April 24, 2003 through April 27, 2004, inclusive, time period.

Excluded from the Class are (i) Nortel, Frank Dunn, Douglas C. Beatty, Michael J. Gollogly, John E. Cleghorn, Robert E. Brown, Robert A. Ingram, Guylaine Saucier and Sherwood H. Smith, Jr. (the "Defendants"); (ii) James Kinney (finance chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michael Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia); (iii) members of the immediate family of each of the defendants and/or any of the individuals referenced above; (iv) any entity in which any defendant and/or any of the individuals referenced above has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any

person who was an officer or director or Nortel or any of its subsidiaries or affiliates during the Class Period; and (vii) the legal representatives, heirs, predecessors, successors or assigns of any of the excluded persons or entities.

IF YOU ARE A CLASS MEMBER, YOU MUST COMPLETE AND SUBMIT THIS FORM IN ORDER TO BE ELIGIBLE FOR ANY SETTLEMENT BENEFITS.

YOU MUST COMPLETE AND SIGN THIS PROOF OF CLAIM AND MAIL IT BY FIRST CLASS MAIL, POSTMARKED NO LATER THAN ___, 2006 TO THE FOLLOWING ADDRESS:

In re Nortel II Securities Litigation
c/o [Claims Administrator]
Claims Administrator
Post Office Box ___

_____, ___ ___

YOUR FAILURE TO SUBMIT YOUR CLAIM BY ___, 2006 WILL SUBJECT YOUR CLAIM TO REJECTION AND PRECLUDE YOUR RECEIVING ANY MONEY IN CONNECTION WITH THE SETTLEMENT OF THIS LITIGATION. DO NOT MAIL OR DELIVER YOUR CLAIM TO THE COURTS OR TO ANY OF THE PARTIES OR THEIR COUNSEL AS ANY SUCH CLAIM WILL BE DEEMED NOT TO HAVE BEEN SUBMITTED. SUBMIT YOUR CLAIM ONLY TO THE CLAIMS ADMINISTRATOR.

CLAIMANT' S STATEMENT

1. I purchased Nortel Networks Corporation ("Nortel") common stock and/or call options on Nortel common stock and/or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive. (Do not submit this Proof of Claim if you did not purchase Nortel common stock or call options or write (sell) put options on Nortel common stock during this period.)

2. By submitting this Proof of Claim, I state that I believe in good faith that I am a Class Member as defined above and in the Notice of Pendency and Certifications of Class Actions and Proposed Settlements, Motions for Attorneys' Fees and Settlement Fairness Hearings (the "Notice"), or am acting for such person; that I am not a defendant in any of the Actions or anyone excluded from the Class; that I have read and understand the Notice; that I believe that I am entitled to receive a share of the Net Settlement Fund as described in the Notice; that I elect to participate in the proposed Settlement described in the Notice; and that I have not filed a request for exclusion. (If you are acting in a representative capacity on behalf of a Class Member (e.g., as an executor, administrator, trustee, or other representative), you must submit evidence of your current authority to act on behalf of that Class Member. Such evidence would include, for example, letters testamentary, letters of administration, or a copy of the trust documents.)

3. I consent to the jurisdiction of the Courts with respect to all questions concerning the validity of this Proof of Claim. I understand and agree that my claim may be subject to investigation and discovery under the applicable rules of civil procedure, provided that such investigation and discovery shall be limited to my status as a Class Member and the validity and amount of my claim. No discovery shall be allowed on the merits of the Actions or the Settlement in connection with processing of the Proofs of Claim.

4. I have set forth where requested below all relevant information with respect to each of my purchases and sales of Nortel common stock and/or call options and/or put options during the periods indicated. I agree to furnish additional information (including transactions in other Nortel securities) to the Claims Administrator, as required by it, to support this claim and my entitlement to a distribution if requested to do so. I understand that my failure to comply with this provision may result in a delay of my distribution, or the rejection of my claim.

5. I have enclosed photocopies of the stockbroker' s confirmation slips, stockbroker' s statements, or other documents evidencing each purchase, sale or retention of Nortel common stock or Nortel common stock options listed below in support of my claim. (IF ANY SUCH DOCUMENTS ARE NOT IN YOUR POSSESSION, PLEASE OBTAIN A COPY OR EQUIVALENT DOCUMENTS FROM YOUR BROKER BECAUSE THESE DOCUMENTS ARE NECESSARY TO PROVE AND PROCESS YOUR CLAIM.)

6. I understand that the information contained in this Proof of Claim is subject to such verification as the Claims Administrator may request or as the Courts may direct, and 1 agree to cooperate in any such verification. (The information requested herein is designed to provide the minimum amount of information necessary to process most simple claims. The Claims Administrator may request additional information as required to efficiently and reliably calculate your Recognized Claim and any applicable withholding taxes. In some cases the Claims Administrator may condition acceptance of the claim based upon the production of additional information, including, where applicable, information concerning transactions in any derivatives of the subject securities such as options.)

7. Upon the occurrence of the Effective Date (as described in the Notice), my signature hereto will constitute a full and complete release, remise and discharge by me and my

heirs, executors, administrators, predecessors, successors, and assigns (or, if I am submitting this Proof of Claim on behalf of a corporation, a partnership, estate or one or more other persons, by it, him, her or them, and by its, his, her or their heirs, executors, administrators, predecessors, successors, and assigns) of each of the "Released Parties" of all "Settled Claims," including "Unknown Claims", as these terms are defined in the Notice.

8. NOTICE REGARDING ELECTRONIC FILES: Certain claimants with large numbers of transactions may request, or may be requested, to submit information regarding their transactions in electronic files. All Claimants MUST submit a manually signed paper Proof of Claim form listing all their transactions whether or not they also submit electronic copies. If you wish to file your claim electronically, you must contact the Claims Administrator at 1-(800)___-___or visit their website at www.___.com to obtain the required file layout. No electronic files will be considered to have been properly submitted unless the Claims Administrator issues to the Claimant a written acknowledgment of receipt and acceptance of electronically submitted data.

9. Statement of Claim

Name(s) of Beneficial Owner(s):

_____
Name

_____
Joint Owner' s Name (if any)

Residence Address of Beneficial Owner(s):

_____
Street No.

_____ _____ _____
City State / Province Zip Code / Postal Code

Mailing Address of Beneficial Owner(s) (if different):

_____
Street No.

_____ _____ _____
City State / Province Zip Code / Postal Code

( )_____ ( )_____
Telephone No. (Day) Telephone No. (Night)

Check one:

_____ Individual _____ Corporation
_____ Joint Owners _____ IRA/RRSP
_____ Estate _____ Other _____ (specify)

Citizenship:

_____ USA _____ Canadian _____ Other

Place of residence at the time you purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock:

_____ _____
State / Province Country

If the Place of residence indicated above is Quebec, and if you are a legal person established for a private interest, a partnership or an association, indicate whether, at any time during the 12-month period preceding February 18, 2005, more than 50 employees were under your direction or control. /___/

FOR NORTEL COMMON STOCK:

10. At the close of business on April 23, 2003, I owned ___shares of Nortel common stock (If none, write "0" or "Zero") (must be documented if other than zero).

11. I made the following purchases of Nortel common stock during the period April 24, 2003 through April 27, 2004, inclusive. (Persons who received Nortel common stock during this period other than by purchase are not eligible to submit claims for those transactions.):

Date(s) of Purchase (List Chronologically) (Month/Day/Year)	Number of Shares of Common Stock Purchased	Purchase Price Per Share of Common Stock	Aggregate Cost (including commissions, taxes, and fees)
___/___/___	_____	$_____	$_____
___/___/___	_____	$_____	$_____
___/___/___	_____	$_____	$_____
___/___/___	_____	$_____	$_____
___/___/___	_____	$_____	$_____

12. I made the following sales of Nortel common stock during the period April 24, 2003 through April 27, 2004, inclusive:

Date(s) of Sale (List Chronologically) (Month/Day/Year)	Number of Shares of Common Stock Sold	Sale Price Per Share of Common Stock	Amount Received (net of commissions, taxes, and fees)
___/___/___	_____	$_____	$_____
___/___/___	_____	$_____	$_____
___/___/___	_____	$_____	$_____
___/___/___	_____	$_____	$_____
___/___/___	_____	$_____	$_____

13. At the close of trading on April 27, 2004, I owned shares of Nortel common stock (If none, write "0" or "Zero") (must be documented if other than zero).

FOR CALL OPTIONS ON NORTEL COMMON STOCK:

14. At the close of business on April 23, 2003,1 owned the following call options on Nortel common stock (must be documented if other than zero.):

Date Purchased (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Aggregate Cost
___/___/___	_____	$_____	___/___/___	
___/___/___	_____	$_____	___/___/___	
___/___/___	_____	$_____	___/___/___	
___/___/___	_____	$_____	___/___/___	

15. I made the following purchases of call options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive:

Date of Purchase (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Price Paid Per Share	Aggregate Cost (including commissions, taxes, and fees)
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____

16. I made the following sales of call options on Nortel common stock during the period April 24, 2003 through April 27, 2004, inclusive:

Date of Sale (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Sale Price Per Share	Aggregate Received (net of commissions, taxes, and fees)
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____

17. I exercised the following call options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive:

Date of Exercise (Month/Day/Year)	Strike Price	Expiration Date (Month/Day/Year)	Number of Contracts
___/___/___	$_____	___/___/_____	_____
___/___/___	$_____	___/___/_____	_____
___/___/___	$_____	___/___/_____	_____
___/___/___	$_____	___/___/_____	_____

18. At the close of business on April 27, 2004, I still owned the following call options on Nortel common stock:

Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)
_____	$_____	___/___/___
_____	$_____	___/___/___
_____	$_____	___/___/___
_____	$_____	___/___/___

FOR PUT OPTIONS ON NORTEL COMMON STOCK:

19. At the close of business on April 23, 2003, I was obligated on the following put options on Nortel common stock:

Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)
_____	$_____	___/___/___
_____	$_____	___/___/___
_____	$_____	___/___/___
_____	$_____	___/___/___

20. I wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive, as follows:

Date of Writing (Sale) (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Sale Price Per Share	Aggregate Received (net of commissions, taxes, and fees)
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____

21. I made the following re-purchases of put options on Nortel common stock which I wrote (sold) during the period between April 24, 2003 through April 27, 2004, inclusive (include all re-purchases no matter what the date):

Date of re-Purchase (List Chronologically) (Month/Day/Year)	Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Sale Price Per Share	Aggregate Cost (including commissions, taxes, and fees)
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____
___/___/___	_____	$_____	___/___/___	$_____	$_____

22. The following put options on Nortel common stock which I wrote (sold) during the period between April 24, 2003 through April 27, 2004, inclusive were exercised by the holders thereof and assigned to me(include all re-purchases no matter what the date):

Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)	Date of Exercise (Month/Day/Year)
_____	$_____	___/___/___	___/___/___
_____	$_____	___/___/___	___/___/___
_____	$_____	___/___/___	___/___/___
_____	$_____	___/___/___	___/___/___

23. At the close of business on April 27, 2004, I was obligated on the following put options on Nortel common stock:

Number of Contracts	Strike Price	Expiration Date (Month/Day/Year)
_____	$_____	___/___/___
_____	$_____	___/___/___
_____	$_____	___/___/___
_____	$_____	___/___/___

IF YOU NEED ADDITIONAL SPACE TO LIST YOUR TRANSACTIONS PHOTOCOPY THIS PAGE

24. Request for Taxpayer Identification Number:

For tax purposes, enter the appropriate tax identification number below for the Beneficial Owner(s). For most United States individuals, this is your Social Security Number. For most United States entities other than individuals, this is your Taxpayer Identification Number. For most Canadian individuals, this is your Social Insurance Number. For most Canadian entities other than individuals, this is your Business Number. If you fail to provide this information, your claim may be rejected.

Individuals:

_____ or _____

Social Security Number Social Insurance Number

Estates, Trusts, Corporations, etc.:

_____ _____

Taxpayer Identification Number Business Number/Trust Number

Certification

U.S. Persons and Entities: /___/ I (We) certify that I am (we are) NOT subject to backup withholding under the provisions of Section 3406 (a)(1)(c) of the Internal Revenue Code because: (a) I am (We are) exempt from backup withholding, or (b) I (We) have not been notified by the I.R.S. that I am (we are) subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the I.R.S. has notified me (us) that I am (we are) no longer subject to backup withholding.

NOTE: If you have been notified by the I.R.S. that you are subject to backup withholding, please strike out the language that you are not subject to backup withholding in the certification above.

Canadian or Other Non-U.S. Persons and Entities: /___/ The beneficial owner is not a U.S. person and the income to which this form relates, if any, is not effectively connected with the conduct of a trade or business in the United States.

UNDER THE PENALTIES OF PERJURY, I (WE) CERTIFY THAT ALL OF THE INFORMATION I (WE) PROVIDED ON THIS PROOF OF CLAIM FORM IS TRUE, CORRECT AND COMPLETE.

Signature of Claimant (If this claim is being made on behalf of Joint Claimants, then each must sign)

_____

(Signature)

_____

(Signature)

_____

(Title/Capacity of person(s) signing, e.g. beneficial purchaser(s), president, executor, administrator, trustee, etc.)

Date: _____

THIS PROOF OF CLAIM MUST BE SUBMITTED NO LATER THAN 2006, AND MUST BE MAILED TO:

In re Nortel II Securities Litigation
c/o [Claims Administrator]
Claims Administrator
Post Office Box ___
_____, __ _____

A Proof of Claim received by the Claims Administrator shall be deemed to have been submitted when posted, if mailed by _____, 2006, and if a postmark is indicated on the envelope and it is mailed first class, and addressed in accordance with the above instructions. In all other cases, a Proof of Claim shall be deemed to have been submitted when. actually received by the Claims Administrator.

You should be aware that it will take a significant amount of time to process fully all of the Proofs of Claim and to administer the Settlement. This work will be completed as promptly as time permits, given the need to investigate and tabulate each Proof of Claim. Please notify the Claims Administrator of any change of address.

REMINDER CHECKLIST

1. ☐ Please be sure to sign this Proof of Claim on page [_]. If this Proof of Claim is submitted on behalf of joint claimants, then both claimants must sign.

2. ☐ Please remember to attach supporting documents. Do NOT send any stock certificates. Keep copies of everything you submit.

3. ☐ Do NOT use highlighter on the Proof of Claim or any supporting documents.

4. ☐ If you move after submitting this Proof of Claim, please notify the Claims Administrator of the change in your address.

NOTE: RECEIPT ACKNOWLEDGMENT NEEDED

The Claims Administrator will send a written confirmation of its receipt of your Proof of Claim. Do not assume your claim is submitted until you receive written confirmation of its receipt. Your claim is not deemed fully filed until the Claims Administrator sends you written confirmation of its receipt of your Proof of Claim. If you do not receive an acknowledgement postcard within thirty (30) days of your mailing the Proof of Claim, then please call the Claims Administrator toll free at _____.

EXHIBIT A-3

NORTEL II SECURITIES LITIGATION

SUMMARY NOTICE OF PROPOSED SETTLEMENT CERTIFICATION OF CANADIAN ACTIONS, MOTIONS FOR LEGAL FEES AND SETTLEMENT FAIRNESS HEARING

THIS NOTICE MAY AFFECT YOUR RIGHTS, PLEASE READ CAREFULLY

ALL PERSONS OR ENTITIES WHO PURCHASED NORTEL NETWORKS CORPORATION ("NORTEL") COMMON STOCK OR CALL OPTIONS ON NORTEL COMMON STOCK OR WROTE (SOLD) PUT OPTIONS ON NORTEL COMMON STOCK (COLLECTIVELY "NORTEL SECURITIES") DURING THE PERIOD APRIL 24, 2003 THROUGH APRIL 27, 2004 (THE "CLASS PERIOD"), INCLUSIVE, INCLUDING, BUT NOT LIMITED TO, THOSE PERSONS WHO TRADED IN NORTEL SECURITIES ON THE NEW YORK STOCK EXCHANGE AND/OR THE TORONTO STOCK EXCHANGE.

NOTICE OF PROPOSED SETTLEMENT

This Summary Notice Is directed to all members of the Classes described below, and is given pursuant to Rule 23 of the United States Federal Rules of Civil Procedure and various Canadian provincial class proceedings legislation. The proposed Settlement is more fully described in the "Notice of Pendency and Certifications of Class Actions and Proposed Settlements, Motions for Attorneys Fees and Settlement Fairness Hearings (Norte, II Notice)" (the "Long-Form Notice") which is currently being mailed to known Class Members. If you have not yet received a copy of the Long-Form Notice you should request one from the Claims Administrator Identified in the section below entitled "For More Information.

Briefly, this Summary Notice advises you, among other things, of a proposed settlement in the following class actions in the United States and Canada:

In Re Node/ Networks Corp. Securities Litigation, Master File No. 04 Civ. 2115 (LAP) in the United States District Court for the Southern District of New York ("New York Court") ("U.S. Action");

Galardi v. Norte/ Networks Corporation, No. 05-CV-285606CP in the Ontario Superior Court of Justice ("Ontario Court") ("Ontario National Action");

Skarstedt v. Corporation Node/ Networks, No. 500-06-000277-059 in the Superior Court of Quebec, District of Montreal ("Quebec Court") ("Quebec Action");

The Ontario National Action and the Quebec Action are collectively referred *to* as the "Canadian Nortel II Actions". The *U.S.* Action and the Canadian Nortel 11 Actions are collectively referred to as the "Nortel Ii Actions".

TERMS OF PROPOSED SETTLEMENT

The Settlement will provide total proceeds consisting of approximately $370,157,418 in cash, plus 314,333,875 shares of Nortel common stock for the benefit of members of the Classes. In addition, Norte will adopt certain corporate governance enhancements. The Settlement resolves lawsuits over whether Nortel misled Investors about its historic and future earnings during the Class Period, The Settlement is contingent on approval by the Courts in the Nortel II Actions and in certain related actions against Nortel in the United States and Canada (the "Norte) I Actions") for which there is a separate notice. The Settlement is further subject to certain regulatory approvals. The Settlement constitutes a full and final resolution of claims and causes of action raised by members of the Classes in the Nortel II Actions and encompassed In the Settlement.

NOTICE OF CERTIFICATION OF CLASSES

The U.S. Action was certified for purposes of the Settlement to proceed as a class action on behalf of persons and entities, wherever located, who bought Nortel common stock or call options on Nortel common stock or who wrote (sold) put options on Nortel common stock during the period April 24, 2003 through April 27, 2004, inclusive, and suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange (the "U.S. Global Class").

The Canadian Nortel II Actions have also been certified for settlement purposes on behalf of Canadian Class Members. The Ontario Court and the Quebec Court have certified the following classes for settlement purposes:

Ontario National Class: All persons or entitles, except members of the Quebec Class, who while residing In Canada at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between April 24, 2003 through April 27, 2004, inclusive.

Quebec Class: All persons or entities, the latter having not more than 50 employees at the relevant time – please refer to the Long-Form Notice –, who, while residing in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Norte, common stock, during the period between April 24, 2003 through April 27, 2004, inclusive.

As described in detail in the Long-Form Notice, certain persons and entities are excluded from the above Classes.

OPTING-OUT OF THE CLASS

If you are a member of any of the Classes you will be bound by the terms of the Settlement, if approved, and you will not be able to bring or maintain any other claim or legal proceedings against the defendants in connection with the allegations raised in the Nortel II Actions, unless you exclude yourself ("opt-out"). If you are a member of any of the Classes and wish to exclude yourself from the Settlement, you must make a request for exclusion in writing. In order to be valid, each such request for exclusion must set forth the name and address of the person or entity requesting exclusion, must expressly state that such person or entity requests exclusion from the Classes, and must be signed by such person or entity. Requests for exclusion must be mailed to:

Nortel II Securities Litigation Exclusions
c/o The Garden City Group, Inc. Claims Administrator
P.O. Box 0000
City, ST 00000-0000

Requests for exclusion, to be effective, must be post-marked no later than (September 15, 2006). If you exclude yourself from the Classes, you will not be bound by any judgment or other orders made in the Norte) II Actions, will not be able to participate in the Settlement, and will retain any rights you may have as against the defendants. Do not request exclusion if you wish to participate in the Settlement.

NOTICE OF SETTLEMENT FAIRNESS/APPROVAL HEARINGS

As noted, in order for the Settlement to become effective, It must be approved by the New York Court, the Ontario Court and the Quebec Court, each of which must be satisfied that the Settlement is fair, reasonable, adequate and in the best interests of Class Members. Dates for the Settlement Fairness/Approval Hearings have been scheduled with the respective courts as follows:

in the U.S. Action: at ___:___.m. on _____day, ___, 2006, at the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, New York, NY.

in the Ontario National Action: at ___:___.m. on _____day, ___, 2006, at the Ontario Superior Court of Justice, 361 University Avenue, Toronto, Ontario.

in the Quebec Action: ___:___.m. on _____day, ___, 2006, at the Superior Court of Quebec, District of Montreal, 1 Notre-Dame East, Montreal, Quebec.

If you are a member of any of the Classes and you do not oppose the Settlement, you need not appear at the Settlement Fairness/Approval Hearings to indicate your approval. if you are a member of any of the Classes and you wish to comment on or make an objection to the terms of the Settlement, you should send your name, address and brief reasons for the objection to the Claims Administrator as set forth in the Long-Form Notice prior to (September 15, 2006) You will be entitled to appear at the Settlement Fairness/Approval Hearings and be heard if you wish to do so.

At the Settlement Fairness Hearing, plaintiffs' counsel will apply to the respective Courts for awards of legal fees and for reimbursement of expenses incurred in prosecuting the Nortel II Actions.

PROOF OF CLAIM REQUIRED TO SHARE IN SETTLEMENT PROCEEDS

In order to receive any of the money or shares of Nortel common stock being made available through the Settlement you must submit a Proof of Claim form by [November 30, 2006]. Proof of Claim forms may be obtained by contacting the Clams Administrator at the addresses shown below.

FOR MORE INFORMATION

If you have not yet received the full printed Long-Form Notice and Proof of Claim form, you may obtain copies of these documents by contacting the Claims Administrator. As there will be no further notices sent directly to members of the Classes, you should keep yourself apprised of all developments and updates by regularly contacting the Claims Administrator or by visiting:

Nortel II Securities Litigation Settlement
c/o The Garden City Group, Inc., Claims Administrator
P.O. Box 0000, City, ST 00000-0000
1-800-___- _____toll free
[www._____.coom]

If there is a discrepancy between this Summary Notice and the Long Form Notice, the latter prevails.

PLAINTIFFS' COUNSEL:

For the U.S. Action: Lead Plaintiff' s Counsel Jeffrey N. Leibell, Esq., Bernstein Litowitz Berger & Grossmann LLP, 1285 Avenue of the Americas, New York, New York 10019.

For the Ontario National Action: Ontario National Class Counsel: Joel P. Rochon, Rochon Genova LLP, 121 Richmond Street West, Suite 900, Toronto, Ontario M5H 2K1.

For the Quebec Action: Quebec Class Counsel: Philippe H. Trudel, Trudel & Johnston, 85 de la Commune East, 3rd Floor, Montreal, Quebec H2Y 1J1.

This Summary Notice has been approved by the United States District Court for the Southern District of New York, the Ontario Superior Court of Justice and the Superior Court of Quebec.

EXHIBIT A-4

Nortel I and II Canadian Actions

Proposed Legal Notification Campaign

Prepared by:
Jeanne C. Finegan, APR
June 19, 2006

The Garden City Group, Inc.

Table of Contents

The Garden City Group, Inc.

INTRODUCTION

Since 1984, The Garden City Group, Inc. (GCG) has established a history of providing successful class action settlement services. Originally a practice unit of KPMG Peat Marwick, the company is now a wholly owned subsidiary of Crawford & Company, the world' s largest risk adjusting firm (*NYSE symbols CRD.A/CRD/B*).

For over 20 years, GCG has specialized in the design and implementation of Class Action notification campaigns. GCG' s team has designed and implemented large domestic and international campaigns as well as highly focused local campaigns for class action proceedings. GCG has also handled the notice and administration of some of the largest securities settlements of all time. Our recent experience includes the $6.2 billion WorldCom case (where we have processed nearly one million claims); the $1.1 billion *Royal Ahold* case (which included mailing notice to class members in more than 100 countries); and the $1 billion IPO settlement where we mailed more than 17 million notices.

Jeanne C. Finegan, Senior Vice President, GCG

Jeanne Finegan, APR, has more than 20 years of communications and advertising experience. She is a nationally recognized expert in legal notice programs, both in Federal and State courts. Finegan has lectured and published extensively on various aspects of legal noticing. Her articles have been published in The National Law Journal, The ABA' s Class Action Litigation Reporter, and The International Risk Management Institute, among others. She has provided expert testimony before Congress on issues of notice and served the Consumer Product Safety Commission (CPSC) as an expert to determine ways in which the Commission can increase the effectiveness of its product recall campaigns. She is accredited

(APR) in Public Relations by the Universal Accreditation Board, a program administered by the Public Relations Society of America.

Finegan has designed and implemented many of the nation' s largest and high profile legal notice communication programs. Her multi-national experience includes some of the most high-profile restructuring communications programs involving international Notice. She has designed legal notices for a wide range of class actions and consumer matters that include product liability, construction defect, antitrust, medical/pharmaceutical, human rights, civil rights, telecommunication, media, environment, securities, banking, insurance, and bankruptcies. Attached hereto as Exhibit 1 is Finegan' s comprehensive curriculum vitae.

1. Legal Notice Communication Methodology[1]

Within the context of "Expert Opinion," two U.S. Supreme Court decisions, Daubert v. Merrell Dow Pharmaceuticals, 509 U.S. 579 (1993), and Kumho Tire Co. v. Carmichael, 526 U.S. 137 (1999), suggest that when we design a media plan for submission to a court for approval, as experts, we must: *1) Apply a technique that can be tested by peers; and 2) Use industry accepted methodology.* Therefore, the following legal notice proposal was developed using a scientific method accepted within the advertising industry for modeling target class members by their demography and media consumption habits.

Most importantly, in formulating a program for delivering "Appropriate Notice," we have been mindful of the natural justice and fair process concerns expressed by the Canadian courts, as well as of the factors listed in the Ontario Class Proceedings Act, S.O.

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1 The Canadian plan was calculated based on data provided by the Print Measurement Bureau (PMB) and The Newspaper Audience Databank (NADbank).

1992, c. 6, s. 17, the applicable British Columbia statute (R.S.B.C. 1996, c. 50, s. 19), and the relevant provisions in the Quebec Code of Civil Procedure.

The purpose of this document is to fully describe our methodology for modeling a target audience and then appropriately selecting the methods of communication that will best reach them, including direct mail, published notice, third-party outreach, and media relations. It is our intention to provide to the Courts of Canada a well-formulated notice plan that defines the target audience by its demography and media consumption habits, as well as the percentage reached by this campaign and how frequently the target audience will have the opportunity to see the message as calculated by accepted advertising industry practice.

Our analysis is designed to be rigorous and well calculated based on available research and scientific analysis. However, as with all social sciences, it should be noted that there is no one absolute formula for reaching these conclusions. The calculation of human behavior and media consumption is not an exact science, but instead it is a combination of science and judgment based upon knowledge and experience with advertising industry methodologies that are traditionally utilized in designing legal notice programs.

This proposal is submitted in connection with the Nortel I and Nortel II United States and Canadian class actions.[2] This proposal

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[2] The Nortel I Settlement includes three actions covered by Canadian Law: (i) *Law, et al., v. Nortel Networks Corp., et al*., Ontario Superior Court of Justice Commercial List, Court file No. 02-CL-4605 (the "Ontario Action"); (ii) *Jeffrey, et al., v. Nortel Networks Corp., et al*., Supreme Court of British Columbia, No. S015159 Vancouver Registry (the "British Columbia Action"); and (iii) *Association de Protection des Epargnants et Investissuers du Quebec v. Nortel Networks Corp*., Superior Court, District of Montreal No.: 500-06-000 126-017 (the "Quebec Proceeding").

The Nortel II Settlement includes two actions governed by Canadian law: (i) *Gallardi v. Nortel Networks Corp*., Ontario Superior Court of Justice Commercial List, Court No. 05-CV-285606CP (the "Ontario Action"); *Skarstedt v. Nortel Networks Corp*., Superior Court, District of Montreal, No. 500-06-000277-059 (the "Quebec Proceeding"). These five actions/proceedings are collectively referred to herein as the Canadian Actions.

addresses only the Canadian outreach effort. Adhering to the highest communication and outreach standards, this Notice Program is based on a scientific methodology that is used throughout the advertising industry and one which has been embraced by Courts in the United States and in Canada. Therefore, GCG has designed a Notice Program to "reach"[3] the greatest practicable number of class members.

2. Multi-National Legal Notice Experience

GCG' s ground breaking multi-national efforts are commonly cited by Legal Notice Experts. Our benchmark international cases (see In re: Vancouver Women' s Health Collective Society v. A.H. Robins Co., 820 F.2d 1359 (4th Cir. 1987), and In re: Lindsey v. Dow Corning Corp., Civil Action No. CV 94-P-11558-S), have been cited as international legal notice standards. As demonstrated below, GCG is particularly qualified to develop and implement a legal notice program that will effectively and efficiently reach the targeted potential class members in a manner that is similar in scope and form to other multi-national court-approved notice programs.

In re Vancouver Women's Health Collective Soc y v. A. H. Robins Co., 820 F.2d 1359, 1364 (4th Cir. 1987). *In an appellate opinion, the Honorable Robert R. Merhige, Jr., Senior District Judge found that [**15] "the notification program used by Robins was, under the circumstances, reasonable. The evidence indicates that every news outlet in the world received the information. Similarly, there is fairly strong evidence that the news was broadly disseminated worldwide. A battery of world health and welfare organizations also disseminated the information. It appears to this court that the extensive notification program was a success.*

Lindsey, et al., v. Dow Corning Corp., et al., Civil Action No. CV 94-P-11558-S. *In an order approving the Notice of Settlement,*

These five actions/proceedings are collectively referred to herein as the Canadian Actions.

3 Reach is the number or percentage of different persons exposed to a specific media schedule.

United States District Judge Samuel J Pointer, Jr., stated, "Indeed, the efforts to provide information to such persons must be viewed as among the most extensive and complete ever undertaken." The court finds and concludes that, under these circumstances, the notice program, with all its components, satisfies constitutional requirements and, in the words of Rule 23, constitutes "the best notice practicable under the circumstances, including individual notice to all members who can be identified through reasonable effort."

Other samples of our international experience are included as Exhibit 2.

3. Media Rationale Overview

GCG has designed a Notice Program that is consistent with other United States Court-ordered multi-national notice programs and with the various Canadian class action statutes. In formulating a program for delivering "Appropriate Notice" that meets the concepts of natural justice and fair process we are guided by sound principles of communication. We are utilizing nationally syndicated Canadian media research bureaus to provide both demographic and media consumption habits of the Canadian population. These data are used by Canadian advertising agencies as the basis to select media most appropriate to reach specific target audiences.

We are confident that class members will be provided with multiple opportunities to see this Notice through: 1) Mailed notice to all reasonably identifiable class members who purchased Nortel stock during the class period; 2) Publication in Canada in appropriate magazines and newspapers; 3) Internet banner ads; 4) Media relations; 5) a Toll-free information line; and 6) a Web site.

4. Direct Mail

In securities class actions in the United States, the long-accepted practice for disseminating notice to the class members is through

direct mailings. However, there is never one defined mailing list of class members. Rather, we need to cull together a complete list from various sources. The first step is to mail notice to all record holders of the subject company' s publicly traded securities during the Class Period. This list is provided to us by the company' s transfer agent. These record holders, however, are usually just the tip of the iceberg in terms of' the potential class members that we reach. The overwhelming majority of class members are found through the network of brokerage firms, banks and other third-party nominees whose clients and/or customers may have purchased a company' s stock during the appropriate Settlement Class Period. These firms hold stock in street name on behalf of their customers and, through the years, have developed specialized departments to respond to requests for class member lists.

During its 20-year history of performing class action settlement administration, GCG has built and maintained a proprietary database of the largest brokerage firms, banks, institutions and other nominees (the "Broker Database"). This Broker Database is continually monitored and updated as brokerage firms change addresses, go out of business and/or come into existence. Currently, GCG has more than 2,500 such firms in its U.S. database and thousands more in its international database.

After notice is mailed, these brokerage firms respond in one of two ways. First, many firms provide us with lists of clients believed to be class members (i.e., they purchased the requisite security during the applicable time period). These lists come in the forms of electronic feeds of data as well as hard-copy labels and other formats. GCG, in turn, updates its database records for the appropriate case to reflect these names and addresses and then mails the notice (and usually a claim form) to these individuals and

entities. Other nominee firms, ostensibly due to privacy concerns, do not provide names of their clients, but rather, request copies of the notice packet in bulk so that they can forward notice directly to their clients.

In large cases such as this, GCG conducts follow-up telephone campaigns with these nominee firms to make certain that they have received the notice and that they have complied with the requirements described therein. To help ensure compliance, we will also ask these nominee firms to submit to us a compliance certificate, which basically confirms that they searched their records and provided us with names and addresses of potential class members and/or that they actually mailed the notice packets that they requested. We expect to employ this methodology of direct mail notice in both the United States and Canada in connection with the Nortel I and Norte! II Settlements. GCG' s database already contains names and addresses of 185 of the largest Canadian nominees to be targeted for all securities mailings. This list was updated through extensive research only a few months ago in connection with another large international settlement. GCG has experience receiving names and requests from these firms in Canada and we are, therefore, confident that we can rely on their participation in this case. We have also worked in the past with Dun & Bradstreet to purchase additional lists of banks and brokerage firms in countries outside the United States. We will work with them to determine whether they have names and addresses that genuinely supplement our Canadian nominee mailings.

However, because we cannot reasonably expect the Canadian brokerage firms to be as comfortable with this process as are the firms in the U.S. – because plainly there is not yet the volume of securities class actions settlements in Canada that exists in the U.S.

– we are buttressing this direct mail program with a very comprehensive notice publication program, which is described below. We expect that this media program will be at least comparable, if not more fulsome than the program developed for the U.S.

5. Publication

The Canadian Notice plan is calculated based on data provided by The Print Measurement Bureau (PMB). PMB is Canada' s leading nationally syndicated media research bureau, which provides data on publication readership, product usage and demographic information. PMB is widely accepted by the top advertising agencies. Additionally, the Canadian plan incorporates data provided by The Newspaper Audience Databank (NADbank). NADbank studies newspapers on a market-by-market basis.

Based on my over 20 years of experience in the field of advertising, public relations and marketing communications, I believe that this syndicated research provides a valid basis for determining the multimedia characteristics of specific target audiences.

The closest definition that PMB provides on which to base our research for the Nortel Legal Notice Program is "People who own common or preferred stock." Based on this definition, we have conducted an extensive analysis of the demographics of the target audience in Canada for their tendencies to read various magazines and newspapers.

Based on this data, the media program alone is estimated to reach 84.22 percent of "Canadians who own common or preferred stock," with an average frequency of 3.82 times.[4]

Demographic Profile – Canada

Target: People who own common or preferred stock

Men	62.38%
Women	37.62%
Ages 35-64	67.15%
Own Home	87.84%
Employed	66.00%
Employed Full Time	62.99%
HHI $75K-$150K	57.10%
HHI $50K+	79.72%
English Canada	76.64%
French Canada	23.36%
Married	77.44%
Ontario	40,29%
Quebec	25.90%
British Columbia	13.59%
Alberta	10.37%
Manitoba/Saskachewan	5.69 %

Source: PMB 2006 Two-Year Readership Database

6. Notice Program Strategy

Demographic profiles have been used for many years by advertising agencies as the standard practice for defining media objectives and selecting media. Demographics provide insight regarding a target

4 Detailed explanations of reach and frequency are found on the Definitions page.

audience' s age, ethnicity, preferred language, income, population size and geographical distribution. Additionally, data provided by PMB goes beyond basic demographics by analyzing lifestyle characteristics, including media usage habits. These lifestyle characteristics and demographic descriptions are segmented into distinct cluster types. Each cluster uniquely describes demographics, attitudes, and consumer behavior. For the purposes of targeting a legal notice program, these clusters describe media usage patterns, and are used to define the extent of a medium' s usage within a given cluster.

Based on this research, we have developed an approach utilizing broad-reaching publications and more vertically targeted business publications that we know the target has a likelihood of reading. Moreover, our research indicates over 22 percent of the Canadian population speak French. The chart below identifies the percentage of French and/or English spoken by province.

Canadian Province	English	French	Total Population*	% Speak French
Newfoundland and Labrador	500,065	2,180	508,075	0.43 %
Prince Edward Island	125,215	5,670	133,385	4.25 %
Nova Scotia	834,315	34,155	897,570	3.81 %
New Brunswick	465,720	238,775	719,710	32.90%
Quebec	572,085	5,788,655	7,126,580	81.24%
Ontario	8,079,500	493,630	11,285,550	4.37 %
Manitoba	836,980	44,775	1,103,700	4.06 %
Saskatchewan	825,865	18,035	963,150	1.87 %
Alberta	2,405,935	59,735	2,941,150	2.03 %
British Colombia	2,885,300	56,100	3,868,875	1.45 %
Yukon Territory	24,840	890	28,525	3.12 %
Northwest Territories	28,985	985	37,105	2.60 %
Nunavut	7,370	400	26,665	1.50 %
Total	**17,572,175**	**5,741,965**	**29,839,040**	**22.75%**
Total French Speakers	6,741,965			
% French Speakers of Total Pop.	22.79 %			

* Includes people who speak English & French and other languages

Source: Census 2001

Therefore, we have included a number of French general circulation magazines and newspapers geared toward the French speaking population in Canada, most particularly in Quebec.

Additionally, we analyzed total circulation and Readers Per Copy "RPC" of a publication in order to understand its total readership. While this number does not factor out duplication, it is illustrative as to the extent of the program. Also this number only includes these consumer publications, and does not include the multiple other methods of communications we are using, i.e. direct mail, and media relations efforts. These additional methods of communication will only further increase readership.

PMB research indicates that the magazines detailed below are the most appropriate to reach the largest percentage of this target. The magazines used in this Legal Notice program are published in either French and/or English and deliver the broadest appropriate reach of "people who own common or preferred stock."

Canadian Magazines Selected for this Legal Notice Program

Canadian Business	Bi-Weekly	E	92,000	11.8	1,085,600	1/4 Page	1
Maclean' s	Weekly	E	822,000	7.1	5,836,200	Page	2
L' actualite	Monthly	F	191,000	6.0	1,146,000	Full Page	1
Report on Business Magazine (Globe & Mail)	Monthly	E	288,000	5.0	1,440,000	1/4 Page	1
Financial Post Business Magazine	Monthly	E	221,000	5.9	1,303.900	1/4 Page	1
Time Canada	Weekly	E	239,000	11.5	2.748,500	1/4 Page	1
MoneySense	7X/Year	E	115.000	8.2	943,000	1/4 Page	1
Readers Digest (English Edition)	Monthly	E	1,990,000	7.2	14,328,000	Full Page	2
Readers Digest (French Edition)	Monthly	F	250,000	5.2	1,300,000	Full Page	1
Canadian Living	Monthly	E	538,000	8.2	4,411,600	1/4 Page	1
Coup de Pouce	Monthly	F	230,000	6.2	1,426,000	Full Page	1
Canadian Geographic	Monthly	E	230,000	17.8	4,094,000	1/2 Page	1
Chatelaine (English Edition)	Monthly	E	697.000	6.4	4,460,800	1/4 Page	1
Chatelaine (French Edition)	Monthly	F	209,000	6.2	1,295,800	Full Page	1
The National Post (Wed)	Daily	E	248,000	3.4	843,200	1/4 Page	1
The National Post (Sal)	Daily	E	268.000	2.6	696,800	1/4 Page	1
The Globe and Mail (Daily − Report on Business Section)	Daily	E	322,000	4.1	1,320,200	1/4 Page	1
The Globe and Mail (Sal − Report on Business Section)	Daily	E	402,000	3.2	1,286,400	1/4 Page	1

* Unit Size will depend on final size of Summary Notices.

The Notice program includes publication in the two largest national newspapers in Canada, The National Post and The Globe and Mail. To increase the overall reach and effectiveness of this plan, GCG has added newspapers in the top 10 Census markets. The Legal Notice will appear on both the highest day of circulation as well as

the day business editorial is the most highly concentrated.

Toronto Star	Toronto (Ontario)	E	2	1/4 Page	Sat.	673,663	Wed.	462,985
Toronto Sun	Toronto Ontario	E	2	1/2 Page Tab	Sun.	337,000	Mon.	194,000
Le Journal de Montreal (Mon-Fri)	Montreal (Quebec)	F	2	Full Page Tab	Sat.	321,000	Wed.	268,000
Montreal Gazette	Montreal (Quebec)	E	2	1/4 Page	Sat.	153,016	Wed.	136,818
La Presse	Montreal (Quebec)	F	1	1/2 Page	Sat.	277,935	N/A	N/A
The Vancouver Sun	Vancouver (British Columbia)	E	2	1/4 Page	Sat.	230,526	Wed.	173,145
Ottawa Citizen	Ottawa-Hull (Ontario-Quebec)	E	2	1/4 Page	Sat.	156,657	Wed.	127,792
La Drolt	Ottawa-Hull (Ontario-Quebec)	F	1	1/2 Page	Sat	39,889	N/A	N/A
Calgary Herald	Calgary (Alberta)	E	2	1/4 Page	Fri.	140,728	Wed.	116,671
Edmonton Journal	Edmonton (Alberta)	E	2	1/4 Page	Fri.	143,312	Wed.	125,827
Le Journal de Quebec	Quebec (Quebec)	F	2	Full Page Tab	Sat.	122,863	Wed.	98,165
Quebec City Le Soleil	Quebec (Quebec)	F	1	1/2 Page	Sat.	112,660	N/A	N/A
The Hamilton Spectator	Hamilton (Ontario)	E	2	1/4 Page	Sat.	122,572	Wed.	10%643
Winnipeg Free Press	Winnipeg (Manitoba)	E	2	1/4 Page	Sat.	164,106	Wed.	119,392
The London Free Press	London (Ontario)	E	2	1/4 Page	Sat.	112,182	Mon.	92,476
Subtotal:			**27**			**3,108,109**		**2,020,914**

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* Unit size will depend on final size of Summary Notices.

Additionally, we are further enhancing the Notice Program by adding the largest general circulation newspaper in each of the Canadian provinces.

Moncton Times & Transcript	New Brunwick	E	1	1/4 Page	Saturday	45,500
L' Acadie Nouvelle	Moncton (New Brunswick)	F	1	1/2 Page	Saturday	20,436
The Guardian	Prince Edward Island	E	1	1/4 Page	Saturday	20,746
The Halifax Chronicle Herald	Nova Scotia	E	1	1/4 Page	Saturday	111,501
The Star Phoenix	Saskatchewan	E	1	1/4 Page	Friday	60,499
Nunavut News/North	Nunavet	E	1	1/2 Page Tab	Monday	6,213
Yukon News	Yukon	E	1	1/2 Page Tab	Friday	7,850
NWT/News North	Northwest Territories	E	1	1/2 Page Tab	Monday	9,672
The Telegram	Newfoundland	E	1	1/4 Page	Saturday	55,031
Subtotal:			9			337,448

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* Unit Size will depend on final size of Summary Notices.

All unit sizes and pricing presented in this proposal are subject to change depending on the final text of the Summary Notices.

7. Publication Analysis

We have previously identified one way to measure media, which is reach. Reach refers to those people who actually are exposed to a message. Two other media measures of a publication are coverage (i.e., potential exposure through a given publication) and index against a target. Coverage is the percentage of the target audience that reads a magazine. For example, as shown in the chart below,

Canadian Business reaches an estimated 10.78 percent of "people who own common or preferred stock." Canadian Living reaches an estimated 19.01 percent of this target. It should be noted that the overall average estimated reach is calculated through a random duplication formula widely accepted in the advertising industry.

Index is an indicator of the tendency of a consumer to read a certain publication. An index of 100 is a mean. An index greater than 100 indicates a percentage greater than the average tendency to read a publication. For example an index of 110 would mean that the target is 10 percent more likely than the average person to read a publication.

The chart below lists each publication by its reach of those who own common or preferred stock. The magazines selected for this Class either reach a significant percentage of the target audience or they index well. As the chart below indicates, the selected Canadian publications are well read by those who own common or preferred stock. For example, Canadian Business is 176 percent more likely to be read by our target audience of "those who own common or preferred stock" than the average Canadian.

% Coverage and Composition Index Target: Own Common or Preferred Stock

Target: Own Common or Preferred Stock

Canadian Business	10.78%	(276)
Maclean' s	14.19%	(135)
L' actualite	6.69 %	(181)
Report on Business Magazine (Globe & Mail)	14.52%	(279)
Financial Post Business Magazine	13.39%	(285)
Time Canada	12.05%	(121)
MoneySense	7.63 %	(224)
Reader' s Digest (English Edition)	26.10%	(100)
Reader' s Digest (French Edition)	6.02 %	(129)
Canadian Living	19.01%	(120)
Coup de Pouce	5.76 %	(112)
Canadian Geographic	14.79%	(100)
Chatelaine (English Edition)	17.87%	(111)
Chatelaine (French Edition)	5.62 %	(121)
The National Post (Wed)	9.37 %	(309)
The National Post (Sat)	8.23 %	(322)
The Globe and Mall(Daily − Report on Business Section)	12.25%	(256)
The Globe and Mall (Sat − Report on Business Section)	11.65%	(254)

Source: PMB 2006 Two-Year Readership Database

We have selected broad reaching magazines for this Legal Notice program. Additionally, we are using ad sizes that will be noticed by potential class members, while maintaining cost efficiency. In that regard, we are recommending certain ad unit sizes. For example, we are recommending half-page ads or larger in the magazines, depending on final length of Summary Notice(s). According to Magazine Dimensions 2005, "Studies show that a typical reader of a monthly publication looks at or reads the issue about three times over a 12-week interval. So the vast majority of the audience can be assumed to have scanned all ads (via page openings) *regardless* of ad size or color."

8. Frequency Rationale

Why do we need to expose the target audience to the Legal Notice more than once? Author Michael J. Naples, suggests an answer. He has found a relationship between frequency and message communication success. Among his conclusions: "The weight of evidence suggests strongly that an exposure frequency of at least two (2x) within a purchase cycle is an effective level." Effective Frequency: The Relationship Between Frequency and Advertising Effectiveness − Association of National Advertisers, New York, New York 1988.

The table below reviews correlation between various factors and recommended frequency in a notice program.

Factor	High Frequency	Moderate Frequency	Low Frequency

9. Prominent Ad Position, Formatting and "Plain Language"

The concept of "plain language" in Notice is one that has received much attention. Plain language is simply a more conversational form of communication. The same style is used when reporting the news. The concept, now integrated into Legal Notice practice, is one that has received note from various authorities. For additional information, please visit www.fjc.gov/public/home.nsf; www.plainenglish.co.uk and www.plainlanguagenetwork.org.

The published Notice will be formatted in a manner consistent with these and other guidelines, including Federal Judiciary' s guidelines on easy to read, plain language notice.

As noted in a RAND Study, the Louisiana-Pacific Inner Seal Siding Notice (1995) was actually one of the first published plain language notices. It was co-written by Jeanne Finegan. The RAND study suggested that the plain language text from the L-P notice was more likely than other notices to attract the attention of class members.[5]

Consistent with the Federal Judiciary' s guidelines, the black and white Notice will have a bold headline and will call attention, by way of bold type, to important details, such as class definitions, how individuals can obtain more information by way of mail, toll-free numbers or a web address, relevant dates and deadlines, and other salient points. We will make a best effort to request prominent positioning in the magazines, namely right hand page, as far forward as possible.

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5 Deborah R. Hensler et al., CLASS ACTION DILEMAS, PURSUING PUBLIC GOALS FOR PRIVATE GAIN. RAND (2000).

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10. Internet Banner Advertising

Banner advertising is recognized as an effective method of increasing brand recall and product interest. It is also highly cost-efficient as a means of generating brand awareness. GCG will design a banner advertisement for placement on specific heavily trafficked areas on each of the Internet portals. These banners will be targeting finance executives within Investments & Securities.

We would place banner advertising on financial focused websites such as Canada, Sympatico MSN Finance Channel in English & French, Sympatico MSN − Hotmail targeted to financial executives in English & French, Yahoo, National Post Online, Globe & Mail – Globelnvester.com, and AOL Money & Technology network targeting Canada. The precise sites will be chosen at the time of the media buy.

11. Media Relations

GCG will design a media relations campaign that includes distribution of a press release over PR Newswire including Canadian news wires. The press release will be broadly distributed to the media, as well as focused directly to the securities industry. The press release will alert the media of the details of the case, giving them the opportunity to report on the case and provide additional media exposure by way of news stories to their audiences.

12. Toll Free Information Line

Complementing the Notice Program will be GCG' s ancillary telephone support and website established especially for this case. The summary notice will direct class members to the toll-free telephone number and the website URL for additional information about the settlement.

GCG is able to offer automated information about different aspects of the settlement through our Interactive Voice Response (IVR) platform. We will provide (in both French and English) information about deadlines, class members' rights, background of the case, how to submit a claim, and other pertinent information. In addition to this automated platform we will use our call center facility to set up dedicated operators for this settlement. Our call center' s main operational site is in Sarasota, Florida. However, we have many other available locations from which we run cases. Here, we anticipate using our Montreal site, where we have the capacity to use more than 100 seats (far more than needed). All of the Representatives in this facility are bilingual (English and French Canadian) professional (most have earned a college degree), and have extensive customer service experience.

Regarding connectivity to our IVR platform, all of our domestic toll free numbers automatically include "Extended Call Coverage" (ECC) which provides connectivity from Canada and all of the U.S. Territories without any additional set up. In addition, the transfer of a call from the IVR to a representative in Montreal will be seamless as the infrastructure is already in place. Our IVR has limitless capacity and can be customized to accommodate any foreign language requirement.

13. Web Site

We also intend to create a case-specific web site that provides answers to frequently asked questions as well as postings of all relevant settlement-related documents. Class members will be able to access and download copies of the notices and the claim forms and will have access to relevant Court orders. This web site may be accessed by anyone in Canada or the U.S. and will be available in English and French.

14. Conclusion

Based on our experience in planning and implementing class action Notice it is our judgment that this broad reaching Notice program is reasonably calculated, using appropriate tools and methodology accepted in the advertising industry, to effectively reach targeted class members in Canada.

15. Budget Overview

Below is a cost summary of the proposed Canadian Notice Program:

National Publications*	$	277,817.17
Local Newspapers – Highest Circ Day*	$	96,303.59
Local Newspapers – Best Business Day*	$	78,096.92
Local Newspapers - Additional*	$	12,817.74
Internet Banner Advertising	$	95,855.33
Media Outreach	$	1,985.00
Affidavits	$	6,600.00
Total	**$**	**569,475.75***

To the extent we are asked to place separate ads for Nortel I and Nortel II, the cost will essentially double. Pricing above based on 2006 pricing and current exchange rate. Subject to change based on exchange rate at time of buy.

16. Publication Summary

Canadian Business

Provides news, opinion and community for business leaders, entrepreneurs and investors in Canada. Bi-Weekly.

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* Final pricing will ultimately depend on the size of the final approved Summary Notice(s).

Maclean' s

Publishes the latest in health, education, personal finance, entertainment, personalities, politics and sports, plus thought-provoking columnists and special reports. Weekly.

L' actualite

Covers news and culture in Canada. Monthly.

Report On Business Magazine (Globe & Mail)

Considered the most comprehensive compilation of economic news in Canada. Standard Report on Business sections are typically fifteen to twenty pages and include the listings of major Canadian, US, and international stocks, bonds, and currencies. Monthly.

Financial Post Business Magazine

Consistently provides context, analysis and understanding to current trends, companies and issues that are shaping the economy and Canadians' lives. Topics include corporate strategies, profiles of top political and business leaders with articles aimed at the broader interests of its upscale audience. Monthly.

Time Canada

Provides analysis and viewpoints. Provides insight and big-picture perspective on the most important news of the day, at home and around the world. It covers the transformational issues affecting society − socially, politically, economically and culturally. Weekly.

MoneySense

Covers personal finance in Canada. Each issue contains insightful and informative columns and articles to help consumers make the most of their money. 7x a Year.

Reader' s Digest

(English Edition)

Puts the world in perspective through a fusion of timely original editorial and select excerpts of the best journalism in print. It informs, entertains and inspires people to take action at a time when mass media prominently shapes the culture. Monthly.

Reader' s Digest

(French Edition)

French edition of the publication. Monthly.

Canadian Living

Provides readers with smart solutions for everyday living. The place to turn to first for I-can-do-it recipes for midweek family suppers and elegant entertaining, up-to-the-minute health and wellness information, and practical parenting and family advice-plus inspiring fashion, beauty and home decor ideas that make real sense in busy lives. Daily.

Coup de Pouce

Committed to helping women and their families living in Quebec, it delivers a wealth of information and practical advice. Editorial covers food, health, beauty and fashion, parenting, travel and home. Monthly.

Canadian Geographic

Delivers unmatched coverage of issues related to Canada and its people, all brought to vivid life through stunning photography and unforgettable writing. Monthly.

Chatelaine

(English Edition)

Covers a variety of women' s interests, from fashion and relationships to health information, profiles of successful women and journalism on social and political issues relevant to women. Monthly.

Chatelaine

(French Edition)

French edition of the publication. Monthly.

The National Post

A major Canadian English language national newspaper based in Toronto. Daily.

The Globe and Mail

Often considered the newspaper of record in Canada, it is a major Canadian English language national newspaper based in Toronto. Daily.

17. Media Definitions

REACH - The number of different people (or homes) exposed to an advertisement one or more times. Reach is expressed as an estimated percentage of the defined target population that has an opportunity to see the ad.

FREQUENCY - The average number of exposures received by the people who were reached by the media schedule.

GROSS IMPRESSIONS - The sum of audiences for all vehicles (such as newspapers and/or magazines) on an advertising schedule.

READERS-PER-COPY (RPC) - The average number of readers-per−copy of a publication is computed by dividing the total number

of different people who read or looked into an average issue of a magazine by the magazine' s total circulation, This number is based upon the assumption that readers will "pass along" their copy of a magazine for others to read as well.

18. Syndicated Research Definitions

PMB Print Measurement Bureau is Canada' s leading syndicated study for single-source data on print readership, non‑print media exposure, product usage and lifestyles. Its reputation is based on over 30 years of accurate, in-depth measurement of Canadian consumer behavior.

PMB is a non-profit organization, representing the interests of Canadian publishers advertising agencies, advertisers and other companies.

The first national PMB study was conducted in 1973. Since then, it has grown to the point where it now uses an annual sample of 24,000 to measure the readership of over 120 publications and consumer usage of over 2,500 products and brands. The PMB 2006 study is based on 25,165 interviews conducted over 24 months (October 2003 − September 2005).

**See www.pmb.ca/public/e/index.htm.*

INTERACTIVE MARKET SYSTEMS (IMS) − IMS is the leading international provider of information systems and solutions for the media industry. IMS provides media planning and analysis software for both industry and proprietary research. One function of IMS software is to run a reach and frequency report based on formula models such as IMS Modal and Metheringham. These formulas create a reach and frequency estimate.

The Garden City Group, Inc.

NADbank − The NADbank 2005 study is the most comprehensive data source for market level data on newspaper readership, retail shopping and product category data in Canada.

Exhibit 1

JEANNE C. FINEGAN, APR

BIOGRAPHY

Jeanne Finegan, Senior Vice President of The Garden City Group, Inc., has more than 20 years of communications and advertising experience. She is a nationally recognized expert in class action, bankruptcy and mass tort notification campaigns. Finegan, is accredited (APR) in Public Relations by the Universal Accreditation Board, a program administered by the Public Relations Society of America.

She has provided expert testimony before Congress on issues of notice. Additionally, she has provided expert testimony in both State and Federal Courts regarding notification campaigns and conducted media audits of proposed notice programs for their adequacy under Fed R. Civ. P. 23(c)(2) and similar state class action statutes.

She has lectured, published and has been cited extensively on various aspects of legal noticing, product recall and crisis communications and has served the Consumer Product Safety Commission (CPSC) as an expert to determine ways in which the Commission can increase the effectiveness of its product recall campaigns.

Finegan has developed and implemented many of the nation' s largest and most high profile legal notice communication and advertising programs. In the course of her class action experience, Courts have recognized the merits of, and admitted expert testimony based on, her scientific evaluation of the effectiveness of notice plans. She has designed legal notices for a wide range of class actions and consumer matters that include product liability, construction defect, anti-trust, medical/pharmaceutical, human rights, civil rights, telecommunication, media, environment, securities, banking, insurance, mass tort, restructuring and product recall.

Her work includes:

In re: UAW v General Motors Corporation, Case No: 05-73991 Class Action, United States District Court Eastern District of Michigan Southern Division (2006).

In re: Wicon, Inc. v. Cardservice International, Inc., BC 320215 Class Action Superior Court of the State of California for the County of Los Angeles (2004).

In re: Varacallo, et aL v. Massachusetts Mutual Life Insurance Company, et al., Civil Action No. 04-2702 (JLL), United States District Court for the District of New Jersey (2004).

> ***(Preliminary Approval Order at 9). ... the Court found that ... "all of the notices are written in simple terminology, are readily understandable by Class Members, and comply with the Federal Judicial Center's illustrative class action notices."***
>
> ***... By working with a nationally syndicated media research firm, [Finegan 's firm] was able to define a target audience for the MassMutual Class Members, which provided a valid basis for determining the magazine and newspaper preferences of the Class Members. (Id. at 0 5.2). ... The Court agrees with Class Counsel that this was more than adequate.***

In re: John's Manville (Statutory Direct Action Settlement, Common Law Direct Action and Hawaii Settlement) Index No 82-11656 (BRL) United States Bankruptcy Court Southern District of New York (2004). The nearly half-billion dollar settlement constituted three separate notification programs, which targeted all persons, who had asbestos claims whether asserted or unasserted, against the Travelers Indemnity Company.

In the Findings of Fact and Conclusions of a Clarifying Order Approving the Settlements, the Honorable Chief Judge Burton R. Lifland said:

> ***"As demonstrated by Findings of Fact, the Statutory Direct Action Settlement notice program was reasonably calculated under all circumstances to apprise the affected individuals of the proceedings and actions taken involving their interests, Mullane v. Cent. Hanover Bank & Trust Co; 339 U.S. 306, 314 (1950), such program did apprise the overwhelming majority of potentially affected claimants and far exceeded the minimum notice required The Court concludes that mailing direct notice via U.S. Mail to law firms and directly to potentially affected claimants, as well as undertaking an extensive print media and Internet campaign met and exceeded the requirements of due process. The Court's conclusion in this regard is buttressed by the results over 26,000 phone***

calls, 20,000 requests for information 8,000 website visits and 4,000 users registered to download documents. The results simply speak for themselves."

In re: Wilson v. Massachusetts Mutual Life Insurance Company, Case No. D-101-CV 98-02814 (First Judicial District Court County of Santa Fe State of New Mexico 2002.) This was a nationwide notification program that included all persons in the United States who owned, or had owned, a life or disability insurance policy with Massachusetts Mutual Life Insurance Company and had paid additional charges when paying their premium on an installment bases. The class was estimated to exceed 1.6 million individuals. (www.insuranceclassclaims.com/).

In granting preliminary approval to the settlement agreement, the Honorable Art Encinias commented:

"The Notice Plan was the best practicable and reasonably calculated, under the circumstances of the action. ...land] that the notice meets or exceeds all applicable requirements of law, including Rule 1-023(C)(2) and (3) and 1-023(E), NMRA 2001, and the requirements of federal and/or state constitutional due process and any other applicable law."

In re: Deke, et al. v. Cardservice International, Case No. BC 271679 Superior Court of the State of California for the County of Los Angeles. (2004)

In the Final Order dated March I, 2004, The Honorable Charles W. McCoy commented:

"The Class Notice satisfied the requirements of California Rules of Court 1856 and 1859 and due process and constituted the best notice practicable under the circumstances."

In re: Sager v. Inamed Corp. and McGhan Medical Breast Implant Litigation, Case No. 01043771, Superior Court of the State of California County of Santa Barbara. (2004).

In the Final Judgment and Order, dated March 30, 2004, the Honorable Thomas P. Anderle stated:

"Notice provided was the best practicable under the circumstances."

In re: Florida Microsoft Antitrust Litigation Settlement. Index number 99-27340 CA 11, 11`h Judicial District Court of Miami – Dade County, Florida. (2003)

In the Final Order Approving the Fairness of the Settlement, The Honorable Henry H. Harnage said:

"The Class Notice ... was the best notice practicable under the circumstances and fully satisfies the requirements of due process, the Florida Rules of Civil Procedure, and any other applicable rules of the Court."

In re: Montana Microsoft Antitrust Litigation Settlement. No. DCV 2000 219, Montana First Judicial District Court – Lewis & Clark Co. (2003).

In re: South Dakota Microsoft Antitrust Litigation Settlement. Civ. No. 00-235, State of South Dakota county of Hughes in the circuit Court Sixth Judicial Circuit.

In re: Kansas Microsoft Antitrust Litigation Settlement. Case No. 99C17089 Division No. 15 Consolidated Cases, District Court of Johnson County, Kansas Civil Court Department.

In the Final Order and Final Judgment, the Honorable Allen Slater stated:

"The Class Notice provided was the best notice practicable under the circumstances and fully complied in all respects with the requirements of due process and of the Kansas State. Annot. 00-22.1"

In re: North Carolina Microsoft Antitrust Litigation Settlement. No. 00-CvS-4073 (Wake) 00-CvS-1246 (Lincoln), State of North Carolina, Wake and Lincoln Counties in the General Court of Justice Superior Court Division North Carolina Business Court.

In the multiple state cases, Plaintiffs generally allege that Microsoft unlawfully used anticompetitive means to maintain a monopoly in markets for certain software, and that as a result, it overcharged consumers who licensed its MS-DOS, Windows, Word, Excel and Office software. The multiple legal notice

programs targeted both individual users and business users of this software. The scientifically designed notice programs took into consideration both media usage habits and demographic characteristics of the targeted class members.

In re: MCI Non-Subscriber RatePavers Litigation, MDL Docket No. 1275, (District Court for Southern District of Illinois 2001). The advertising and media notice program was designed with the understanding that the litigation affects all persons or entities who were customers of record for telephone lines presubscribed to MCl/World Corn, and were charged the higher non-subscriber rates and surcharges for direct-dialed long distance calls placed on those lines. (www.rateclaims.com).

After a hearing to consider objections to the terms of the settlement, The Honorable David R. Herndon stated:

> ***"As further authorized by the Court, [Ms. Finegan's company] ... published the Court-approved summary form of notice in eight general-interest magazines distributed nationally; approximately 900 newspapers throughout the United States and a Puerto Rico newspaper. In addition, [Ms. Finegan's company] caused the distribution of the Court-approved press release to over 2,500 news outlets throughout the United States... The manner in which notice was distributed was more than adequate..."***

In re: Sparks v. AT&T Corporation, Case No. 96-LM-983 (In the Third Judicial Circuit, Madison County, Illinois.) The litigation concerned all persons in the United States who leased certain AT&T telephones during the 1980's. Finegan designed and implemented a nationwide media program designed to target all persons who may have leased telephones during this time period, a class that included a large percentage of the entire population of the United States.

In granting final approval to the settlement, the Court commented:

> ***"The Court further finds that the notice of the proposed settlement was sufficient and furnished Class Members with the information they needed to evaluate whether to participate in or opt out of the proposed settlement. The Court therefore concludes that the notice of the proposed***

settlement met all requirements required by law, including all Constitutional requirements."

In re: Pigford v. Glickman and U.S. Department of Agriculture, Case No. CA No. 97-19788 (PLF), (District Court for the District of Columbia 1999). This was the largest civil rights case to settle in the United States in over 40 years. The highly publicized, nation-wide paid media program was designed to alert all present and past African-American farmers of the opportunity to recover monetary damages against the U.S. Department of Agriculture for alleged loan discrimination.

In his Opinion, the Honorable Paul L. Friedman commented on the notice program by saying:

"The parties also exerted extraordinary efforts to reach class members through a massive advertising campaign in general and African American targeted publications and television stations."

Judge Friedman continued:

"The Court concludes that class members have received more than adequate notice and have had sufficient opportunity to be heard on the fairness of the proposed Consent Decree."

In re: SmithKline Beecham Clinical Billing Litigation, Case No. CV. No. 97-L-1230 (Illinois Third Judicial District Madison County, 2001.) Finegan designed and developed a national media and Internet site notification program in connection with the settlement of a nationwide class action concerning billings for clinical laboratory testing services.

In re: MacGregor v. Schering-Plough Corp., Case No. EC248041 (Superior Court of the State of California in and for the County of Los Angeles 2001). This nationwide notification was designed to reach all persons who had purchased or used an aerosol inhaler manufactured by Schering-Plough. Because no mailing list was available, notice was accomplished entirely through the media program.

In re: Swiss Banks Holocaust Victim Asset Litigation Case No. CV-96-4849, (Eastern District of New York 1999). Finegan managed the design and implementation of the Internet site on this historic case. The site was developed in 21 native languages. It is a highly secure data gathering tool and information

hub, central to the global outreach program of Holocaust survivors. (www.swissbankclaims.com/).

In re: Louisiana-Pacific Inner-Seal Siding Litigation, Civil Action Nos. 879-JE, and 1453-JE U.S.D.C., (District of Oregon 1995 and 1999). Under the terms of the Settlement, three separate Notice programs were to be implemented at three-year intervals over a period of six years. In the first Notice campaign, Finegan implemented the print advertising and Internet components of the Notice program.

In approving the legal notice communication plan, the Honorable Robert E. Jones stated:

> ***"The notice given to the members of the Class fully and accurately informed the Class members of all material elements of the settlement... [through] a broad and extensive multi-media notice campaign."***

In reference to the third-year Notice program for Louisiana-Pacific, Special Master Hon. Judge Richard Unis, commented:

> ***"In approving the third year notification plan for the Louisiana-Pacific Inner-SeaP' M Siding litigation, the court referred to the notice as `...well formulated to conform to the definition set by the court as adequate and reasonable notice. '***
>
> ***Indeed, I believe the record should also reflect the Court's appreciation to Ms. Finegan for all the work she's done, ensuring that noticing was done correctly and professionally, while paying careful attention to overall costs. "Her understanding of various notice requirements under Fed. R. Civ. P. 23, helped to insure that the notice given in this case was consistent with the highest standards of compliance with Rule 23(d)(2).***

In re: Thomas A. Foster and Linda E. Foster v. ABTco Siding Litigation. Case No. 95-151-M, (Circuit Court of Choctaw County, Alabama 2000). This litigation focused on past and present owners of structures sided with Abitibi-Price siding. The notice program that Finegan designed and implemented was national in scope.

In the Order and Judgment Finally approving settlement, Judge J. Lee McPhearson said:

> ***"The Court finds that the Notice Program conducted by the Parties provided individual notice to all known Class Members and all Class Members who could be identified through reasonable efforts and constitutes the best notice practicable under the circumstances of this Action. This finding is based on the overwhelming evidence of the adequacy of the notice program ... The media campaign involved broad national notice through television and print media, regional and local newspapers, and the Internet (see id. ¶¶9-II) The result: over 90 percent of Abitibi and ABTco owners are estimated to have been reached by the direct media and direct mail campaign."***

In re: Exxon Valdez Oil Spill Litigation, Case No. A89-095-CV (HRH) (Consolidated) U.S. District Court for the District of Alaska (1997, 2002). Finegan designed and implemented two media campaigns to notify native Alaskan residents, trade workers, fisherman, and others impacted by the oil spill of the litigation and their rights under the settlement terms.

In re: Georgia-Pacific Toxic Explosion Litigation Case No. 98 CVCO5-3535, (Court of Common Pleas Franklin County, Ohio 2001). Finegan designed and implemented a regional notice program that included network affiliate television, radio and newspaper. The notice was designed to alert adults living near a Georgia-Pacific plant that they had been exposed to an air-born toxic plume and their rights under the terms of the class action settlement.

In the Order and Judgement finally approving the settlement the Honorable Jennifer L. Bunner said:

> ***"...Notice of the settlement to the Class was the best notice practicable under the circumstances, including individual notice to all members who can be identified through reasonable effort. The Court finds that such effort exceeded even reasonable effort and that the Notice complies with the requirements of Civ. R. 23(C).***

In re: Johns Manville Phenolic Foam Litigation Case No. CV 96-10069, (District Court for the District of Massachusetts 1999). The nationwide multi-media legal notice program was designed to reach all Persons who own any structure, including an industrial building, commercial building, school, condominium, apartment house, home, garage or other type of structure located in the United States or its territories, in which Johns Manville PFRI was installed, in whole or in part, on top of a metal roof deck.

In re: James Hardie Roofing Litigation Case No. CV. No. 00-2-17945-65SEA (Superior Court of Washington in and for King County 2002). The nationwide legal notice program included advertising on television, in print and on the Internet. It was national in scope and designed to reach all persons who own any structure with JHBP roofing products.

In the Final Order and Judgement the Honorable Steven Scott stated:

> ***"The notice program required by the Preliminary Order has been fully carried out.... [and was/ extensive. The notice provided fully and accurately informed the Class Members of all material elements of the proposed Settlement and their opportunity to participate in or be excluded from it; was the best notice practicable under the circumstances; was valid, due and sufficient notice to all Class Members; and complied fully with Civ. R. 23, the United States Constitution, due process, and other applicable law. "***

In re: First Alert Smoke Alarm Litigation, Case No. CV-98-C-1546-W (UWC), (District Court for the Northern District of Alabama Western Division 2000). Finegan designed and implemented a nationwide legal notice and public information program. The public information program is scheduled to run over a two-year period to inform those with smoke alarms of the performance characteristics between photoelectric and ionization detection. The media program includes network and cable television, magazine and specialty trade publications.

In the Findings and Order Preliminarily Certifying the Class, The Honorable C.W. Clemon wrote that the notice plan:

> ***"...Constitutes due, adequate and sufficient notice to all Class Members; and meets or exceeds all applicable requirements of the Federal Rules of***

Civil Procedure, the United States Constitution (including the Due Process Clause), the Alabama State Constitution, the Rules of the Court, and any other applicable law."

In re: American Cyanamid, Civil Action CV-97-0581-BH-M United States District court for the Southern District of Alabama 2001. The media program targeted those Farmers who had purchased crop protection chemicals manufactured by American Cyanamid.

In the Final Order and Judgment, the Honorable Charles R. Butler Jr. wrote:

"The Court finds that the form and method of notice used to notify the Temporary Settlement Class of the Settlement satisfied the requirements of Fed. R. Civ. P. 23 and due process, constituted the best notice practicable under the circumstances, and constituted due and sufficient notice to all potential members of the Temporary Class Settlement."

In re: Bristow v Fleetwood Enterprises Litigation Case No Civ 00-0082-S-EJL (District Court for the District of Idaho 2001). Finegan designed and implemented a legal notice campaign targeting present and former employees of Fleetwood Enterprises, Inc., or its subsidiaries who worked as hourly production workers at Fleetwood' s housing, travel trailer, or motor home manufacturing plants. The comprehensive notice campaign included print, radio and television advertising.

In re: New Orleans Tank Car Leakage Fire Litigation, Case No 87-16374. (Civil District Court for the Parish of Orleans, State of Louisiana 2000). This case resulted in one of the largest settlements in US History. This campaign consisted of a media relations and paid advertising program to notify individuals of their rights under the terms of the settlement.

In re: Garria Spencer v. Shell Oil Company, Case No. CV 94-074, District Court, Harris County Texas (1995). The nation wide notification program was designed to reach individuals who owned real property or structures in the United States which contained polybutylene plumbing with acetyl insert or metal insert fittings.

In re: Rene Rosales v. Fortune Insurance Company, Case No 99-04588 CA (41) Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida (2000). Finegan provided expert testimony in this matter. She conducted an audit on behalf of intervening attorneys for the proposed notification to individuals insured with personal injury insurance. Based upon the audit, Ms. Finegan testified that the proposed notice program was inadequate. The Court agreed and signed an Order Granting Intervenors' Objections to Class Action settlement...The Honorable Jose M. Rodriques said:

> ***"The Court finds that Ms. Finegan is qualified as an expert on class notice and effective media campaigns. The Court finds that her testimony is credible and reliable."***

Based in part on Finegan' s testimony, the Court ruled in favor of the intervening parties and disapproved the parties' original settlement agreement, vacating the order of preliminary approval.

In re: Hurd Millwork Heat Mirrorrm Litigation Case No. CV-772488, (Superior Court of the State of California for the County of Santa Clara 2000). This nationwide multi-media notice program was designed to reach class members with failed heat mirror seals on windows and doors, and alert them as to the actions that they needed to take to receive enhanced warranties or window and door replacement.

In re: Laborers District Counsel of Alabama Health and Welfare Fund v Clinical Laboratory Services, Inc, Case No. CV −97-C-629-W (Northern District of Alabama 2000.) Finegan designed and developed a national media and Internet site notification program in connection with the settlement of a nationwide class action concerning alleged billing discrepancies for clinical laboratory testing services.

In re: StarLink Corn Products Liability Litigation Case No. 01 C 1181, (Northern District of Illinois, Eastern Division 2002). Finegan designed and implemented a nationwide notification program designed to alert potential class members of the terms of the settlement.

In re: Albertson's Back Pay Litigation, Case No. 97-0159-S−BLW, U.S. District Court of Idaho (1997). Finegan designed and developed a secure Internet site, where claimants could seek case information confidentially.

In re: Georgia Pacific Hardboard Siding Recovering Program, Case No. CV-95-3330-RG, Circuit Court for the County of Mobile, State of Alabama (1997). Finegan designed and implemented a multi-media legal notice program, which was designed to reach class members with failed G-P siding and alert them of the pending matter. Notice was provided through advertisements which aired on national cable networks, magazines of nationwide distribution, local newspaper, press releases and trade magazines.

In re: Diet Drug Litigation, Finegan has worked on many state notification programs and worked as a consultant to the National Diet Drug Settlement Committee on notification issues.

In re: ABS II Pipes Litigation, Case No. 3126, Contra Costa Superior Court, State of California (1998 and 2001). The Court approved regional notification program designed to alert those individuals who owned structures with the pipe, that they were eligible to recover the cost of replacing the pipe. (www.abspipes.com/).

In re: Avenue A Inc. Internet Privacy Litigation District Court for the Western District of Washington Case No: COO-1964C.

In re: Lorazepam and Clorazepate Antitrust Litigation, MDL No. 1290 (TFH) United States District Court for the District of Columbia.

In re: Providian Financial Corporation ERISA Litigation Case No C-01-5027 United States District Court for the Northern District of California.

In re: H & R Block., et al Tax Refund Litigation State of Maryland Circuit Court for Baltimore City Case No. 97195023/CC41 11

In re: American Premier Underwriters, Inc, U.S. Railroad Vest Corp. Boone Circuit Court – Boone County, Indiana. Cause No: 06C01-9912

In re: Sprint Corporation Optical Fiber Litigation District Court of Leavenworth Co, Kansas Case No: 9907 CV 284

In re: Shelter Mutual Insurance Company Litigation District Court in and for Canadian Co. State of Oklahoma Case No. CJ-2002-263

In re: Consecos Inc. Securities Litigation Southern District of Indiana Indianapolis Division Case No: IP-00-0585-C Y/S CA

In re: National Treasury Employees Union, et al United States Court of Federal Claims Case No: 02-128C

In re: City of Miami Parking Litigation Circuit Court of the 11 `h Judicial Circuit in and for Miami Dade County, Florida Case Nos: 99-21456 CA-10, 99-23765 − CA-10.

In re: Prime Co. Incorporated DB/A/Prime Co. Personal Communications, United States Court Eastern District of Texas Beaumont Division − Civil Action No. L 1:01CV658.

In re: Alsea Veneer v. State of Oregon A.A., Case No. 88C-11289-88C-11300.

A Sample of Finegan's Bankruptcy Experience −

Finegan has designed and implemented literally hundreds of domestic and international bankruptcy notice programs. A sample case list includes the following:

In re: United Airlines, Case No. 02-B-48191 (Bnkr. N.D Illinois Eastern Division) Finegan worked with United and its restructuring attorneys to design and implement global legal notice programs. The notice was published in 11 countries and translated into 6 languages. Finegan worked closely with legal counsel and UAL' s advertising team to select the appropriate media and to negotiate the most favorable advertising rates. (www.pd-ual.com/).

In re: Enron. Case No. 01-16034 (Bankr. S.D.N.Y.) Finegan worked with Enron and its restructuring attorneys to publish various legal notices.

In re: Dow Corning, Case No. 95-20512 (Banks. E.D. Mich.) Finegan originally designed the information website. This Internet site is a major information hub that has various forms in 15 languages.

In re: Harnischfeger Industries, Case No. 99-2171 (RJW) Jointly Administered U.S. Bankr., District of Delaware. Finegan designed and implemented 6 domestic and international notice programs for this case. The notice was translated into 14 different languages and published in 16 countries.

In re: Keene Corporation, Case No. 93B 46090 (SMB) U.S. Bankr. Eastern District of Missouri, Eastern Division. Finegan designed and implemented multiple domestic bankruptcy notice programs including notice on the plan of reorganization directed to all creditors and all Class 4 asbestos-related claimants and counsel.

In re: Lamonts, Case No. 00-00045 U.S. Bankr. Western District of Washington. Finegan designed an implemented multiple bankruptcy notice programs.

In re: Monet Group Holdings, Case Nos. 00-1936 (MFW) U.S. Bankr. District of Delaware. Finegan designed and implemented a bar date notice.

In re: Laclede Steel Company, Case No 98-53121-399 US Bankr, CT, Eastern District of MO, Eastern Division. Finegan designed and implemented multiple bankruptcy notice programs.

In re: Columbia Gas Transmission Corporation, Case No. 91-804 Bankr., Southern District of New York; Finegan developed multiple nation-wide legal notice notification programs for this case.

In re: U.S.H. Corporation of New York, et al., and (BRL) Bankr. Southern District of New York; she designed and implemented a bar date advertising notification campaign.

In re: Best Products Co., Inc., Bankr. Case No. 96-35267-T, Eastern District of Virginia; she implemented a national legal notice program that included multiple advertising campaigns for notice of sale, bar date, disclosure and plan confirmation.

In re: Lodzian, Inc., et al – Southern District Court of New York Case No. 16345 (BRL) Factory Card Outlet – 99-685 (JCA), 99-686 (JCA)

In re: International Total Services, Inc., et al – Eastern District Court of New York, Case No: 01-21812, 01-21818, 01-21820, 01-21882, 01-21824, 01-21826, 01-21827 (CD) Under Case No: 01-21812

In re: Decora Industries, Inc and Decora, Incorporated. District of Delaware Case No: 00-4459 and 00-4460 (JJF)

In re: Genesis Health Ventures, Inc., et al – District of Delaware Case No. 002692 (PJW)

In re: Telephone Warehouse, Inc., et al – District of Delaware Case No. 00-2105 through 00-2110 (MFW)

In re: United Companies Financial Corporation, et al., District of Delaware Case No. 99-450 (MFW) through 99-461 (MFW)

In re: Caldor, Inc. New York, The Caldor Corporation, Caldor, Inc, CT, et al. Southern District of New York Case No: 95-B44080 (JLG)

In re: Physicians Health Corporation, et al. District of Delaware Case No: 00-4482 (MFW)

In re: GC Companies., et al. District of Delaware Case Nos:00-3897 through 00-3927 (MFW)

In re: Heilij-Meyers Company, et al, Eastern District of Virginia (Richmond Division) Case Nos: 00-34533 through 00-34538.

Product Recall and Crisis Communication

Reser's Fine Foods – Reser's is a nationally distributed brand and manufacturer of food products through giants such as Albertsons, Costco, Food Lion, WinnDixie, Ingles, Safeway and Walmart. Finegan designed an enterprise wide crisis communication plan that included communications objectives, crisis team roles and responsibilities, crisis response procedures, regulatory protocols, definitions of incidents that require various levels of notice, target audiences, and threat assessment protocols. Finegan worked with the company through two nationwide, high profile recalls, conducting extensive media relations efforts.

Background

Prior to joining The Garden City Group, Inc., Finegan co-founded Huntington Advertising, a nationally recognized leader in legal notice communications. After Fleet Bank purchased her firm in 1997; she grew the company into one of the nation's leading legal notice communication agencies.

Prior to that, Finegan spearheaded Huntington Communications, (an Internet development company) and The Huntington Group, Inc., (a public relations firm). As a partner and consultant, she has worked on a wide variety of client marketing, research, advertising, public relations and Internet programs. During her tenure at the Huntington Group, client projects included advertising (media planning and buying), shareholder

meetings, direct mail, public relations (planning, financial communications) and community outreach programs. Her past client list includes large public and privately held companies: Code-A-Phone Corp., Thrifty-Payless Drug Stores, Hyster-Yale, The Portland Winter Hawks Hockey Team, U.S. National Bank, U.S. Trust Company, Morley Capital Management, and Durametal Corporation.

Prior to Huntington Advertising, Finegan worked as a consultant and public relations specialist for a West Coast-based Management and Public Relations Consulting firm.

Additionally, Finegan has experience in news and public affairs. Her professional background includes being a reporter, anchor and public affairs director for KWJJ/KJIB radio in Portland, Oregon, as well as reporter covering state government for KBZY radio in Salem, Oregon. Finegan worked as an assistant television program/promotion manager for KPDX directing $50 million in programming. Additionally she was the program/promotion manager at and KECH-22 television.

Finegan' s multi-level communication background gives her a thorough, hands-on understanding of media, the communication process, and how it relates to creating effective and efficient legal notice campaigns.

Articles

Co-Author, "Approaches to Notice in State Court Class Actions," – For The Defense, Vol. 45, No. 11 – November, 2003.

Citation – "Recall Effectiveness Research: A Review and Summary of the Literature on Consumer Motivation and Behavior" U.S. Consumer Product Safety Commission,

CPSC-F-02-1391, p.10, Heiden Associates – July 2003.

Author, "The Web Offers Near, Real-Time Cost Efficient Notice," – American Bankruptcy Institute – ABI Journal, Vol. XXII, No. 5. – 2003.

Author, "Determining Adequate Notice in Rule 23 Actions," – For The Defense, Vol. 44, No. 9 – September, 2002,

Author, Legal Notice. What You Need To Know and Why, – Monograph, July 2002.

Co-Author, "The Electronic Nature of Legal Noticing," – The American Bankruptcy Institute Journal -Vol. XXI, No. 3, April 2002.

Author, "Three Important Mantras for CEO' s and Risk Managers in 2002" – International Risk Management Institute – irmi.com/ January 2002.

Co-Author, "Used the Bat Signal Lately" – The National Law Journal, Special Litigation Section – February 19, 2001.

Author, "How Much is Enough Notice" – Dispute Resolution Alert, Vol. 1, No. 6. March 2001.

Author, "Monitoring the Internet Buzz" – The Risk Report, Vol. XXIII, No. 5, Jan. 2001.

Author, "High-Profile Product Recalls Need More Than the Bat Signal" – International Risk Management Institute – irmi.com/ July 2001.

Co-Author, "Do you know what 100 million people are buzzing about today? Risk and Insurance Management – March 2001.

Quoted Article: "Keep Up with Class Action" Kentucky Courier Journal – March 13, 2000.

Author, "The Great Debate – How Much is Enough Legal Notice?" American Bar Association – Class Actions and Derivatives Suits Newsletter, Winter edition 1999.

Speaker/Expert Panelist/Presenter

Practicing Law Institute	Faculty Panelist – CLE Presentation -11 m Annual Consumer Financial Services Litigation. Presentation: Class Action Settlement Structures – Evolving Notice Standards in the Internet Age. New York/ Boston (simulcast), NY March 2006; Chicago, IL April 2006 and San Francisco, CA May 2006.
U.S. Consumer Product Safety Commission	Ms. Finegan participated as an Expert to the Consumer Product Safety Commission to discuss ways in which the CPSC could enhance and measure the recall process. As an expert panelist, Ms Finegan discussed how the CPSC could better motivate consumers to take action on recalls and how companies could scientifically measure and defend their outreach efforts. Bethesda MD, September 2003.

Weil, Gotshal & Manges	CLE presentation " A Scientific Approach to Legal Notice Communication" New York, June 2003.
Sidley & Austin	CLE presentation "A Scientific Approach to Legal Notice Communication" Los Angeles, May 2003.
Kirkland & Ellis	Speaker to restructuring group addressing "The Best Practicable Methods to Give Notice in a Tort Bankruptcy." Chicago, April 2002.
Georgetown University Law Center Mass Tort Litigation Institute	CLE White Paper: What are the best practicable methods to give notice? Dispelling the communications myth − A notice disseminated is a notice communicated. Faculty − Mass Tort Litigation Institute − Washington D.C., November 1, 2001.
American Bar Association	How to Bullet-Proof Notice Programs and what communication barriers present due process concerns in legal notice. Presentation to the ABA Litigation Section Committee on Class Actions & Derivative Suits − Chicago, IL, August 6, 2001.
McCutchin, Doyle, Brown & Enerson	Speaker to litigation group in San Francisco and simulcast to four other McCutchin locations, addressing the definition of effective notice and barriers to communication that affect due process in legal notice. San Francisco, CA − June 2001.
Marylhurst University	Guest lecturer on public relations research methods. Portland, OR - February 2001.
University of Oregon	Guest speaker to MBA candidates on quantitative and qualitative research for marketing and communications programs. Portland, OR − May 2001.

Judicial Arbitration & Mediation Services (JAMS)	Speaker on the definition of effective notice. San Francisco and Los Angeles, CA − June 2000.
International Risk Management Institute	Expert Commentator on Crisis and Litigation Communications. www.irmi.com/
The American Bankruptcy Institute Journal (ABI)	Past Contributing Editor − Beyond the Quill. www.abi.org/.

Memberships and Professional Credentials

APR − Accredited Public Relations − The Universal Board of Accreditation Public Relations Society of America.

Member Portland Advertising Federation Member of the Public Relations Society

Exhibit 2

GCG' s Sample Multi-National experience

In re *Federal-Mogul Global Inc*., No. 01-10578 (AMW) (Bankr. D. Del. 2003). The worldwide notice program for the Federal-Mogul Bankruptcy case was published in 127 countries, 307 publications, and 69 languages. In addition, the notice was published in 28 major publications in United Kingdom and in 14 major publications in the United States. (http://www.fmoplan.com/).

Complexities: The Class consisted of multiple sets of demographics; both white collar and blue collar workers. We analyzed the media and media habits of these populations in the involved countries and published the notice as was necessary to reach both groups effectively. A four-tiered rationale was tailored, so that notice was distributed in an effective manor. Countries were assigned to a tier according to their level of business with Federal Mogul.

In *Re Western Union Monev Transfer Litig*., Master File No. CV 01 0335 (CPS) (E.D.N.Y 2002). The court approved a worldwide settlement and notice program. The Legal Notice was published in more than 160 publications, in more than 80 countries and in more than 20 languages, it is one of the largest international notice programs ever. (http://www.cruzlitigation.com/).

Complexities: The web site was developed in 20 native languages. This notice program was developed after thorough analysis of the data relating to the amount of and number of transactions conducted around the world. Publications in countries were determined by the volume of money and transactions both inbound from and outbound to the United States. For example, when it was shown that a large amount of money was transferred from the United States to Guatemala, ethnic publications catering specifically to the Guatemalan populations in the United States were used. Also the reverse was true, when large amounts of money were transferred to the United States from other countries, we analyzed the widely circulated, well read publications in those countries. This complex analysis and implementation effectively reached all the targeted populations.

In re: Swiss Banks Holocaust Victim Asset Litigation Case No. CV-96-4849, (E.D.N.Y. 1999). Finegan managed the design and implementation of the Internet site. The site was developed in 21 native languages. It is a highly secure data gathering tool and information hub, central to the global outreach program of Holocaust survivors. The website can be viewed at www.swissbankclaims.com/.

Complexities. *The web site had to be developed in 21 native languages. The site also had to be designed to work under the lowest common*

browser. The site was tested across more than 100 different platforms so that a wide range of visitors could easily access this site. Because of the sensitive nature of the information collected on this site, extraordinary security measures had to be established and actively managed to protect it from intrusion and to this day cannot be fully disclosed.

At several points during the notice campaign the site was used as a platform for real-time press conference coverage at four sites simultaneously. Press conferences were held in New York, Tel Aviv, Paris and Budapest.

In re: Mexico Money Transfer Litigation Settlement, 164 F. Supp. 2d 1002 (N.D. I11.2000). (need to bring up the text)This case involved the alleged failure of Western Union and Money Gram to pass along currency conversion discounts to their customers and to post the currency conversion rates in stores. GCG was extensively involved in helping the corporate defendants identify settlement options and related costs. (http://www.gardencitygroup.com/cases/pdf/WES/WESNotice.pdf)

Complexities: *The challenges in this case were numerous in light of the sheer volume of data from the money transfer companies (approximately 47 million records). GCG designed and formatted bilingual notices and claim forms and implemented an extremely complex notice program that included United States and Mexico radio, TV, and newspapers, as well as an 800-number telephone support system in Mexico and the United States. Extensive tracking and reporting of all activities was required for each of three defendants. We recently implemented the claims phase of this settlement with the completed mailing of over 5,000,000 claim forms. Once the processing of claims is complete later this spring, we will begin mailing thousands of coupons to approved claimants. As a follow-up to this settlement, we have just recently initiated the notice phase of a settlement entitled* ***Amorsolo v. Western Union Financial Services, Inc.*** *This case of over 3.2 million California-only class members mimics the process described above. GCG is responsible for implementing all phases of the settlement.*

EXHIBIT B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re NORTEL NETWORKS CORP. SECURITIES LITIGATION	:	Civil Action No. 05-MD-1659 (LAP)
	:	CLASS ACTION
This Document Relates To:	:	
ALL ACTIONS.	:	

ORDER AND FINAL JUDGMENT

On the _____ day of _____, 2006, a hearing having been held before this Court to determine: (1) whether the terms and conditions of the Stipulation and Agreement of Settlement dated _____, 2006 (the "Stipulation") are fair, reasonable and adequate for the settlement of all claims asserted by the U.S. Global Class against the Defendants in the Complaint now pending in this Court under the above caption, including the release of the Defendants and the Released Parties, and should be approved; (2) whether judgment should be entered dismissing the Complaint on the merits and with prejudice in favor of the Defendants and as against all persons or entities who are members of the U.S. Global Class herein who have not requested exclusion therefrom; (3) whether to approve the Plan of Allocation as a fair and reasonable method to allocate the settlement proceeds among the members of the U.S. Global Class; and (4) whether and in what amount to award lead Plaintiffs' Counsel fees and reimbursement of expenses. The Court having considered all matters submitted to it at the

hearing and otherwise; and it appearing that a notice of the hearing substantially in the form approved by the Court (including French language versions sent to addresses in Quebec, Canada) was mailed to all persons or entities reasonably identifiable, who purchased common stock of Nortel Networks Corporation ("Nortel"), or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive (the "Class Period"), except those persons or entities excluded from the definition of the U.S. Global Class, as shown by the records of Nortel' s transfer agent, at the respective addresses set forth in such records, and that a summary notice of the hearing substantially in the form approved by the Court was published pursuant to the Notice Plan as set forth in the Affidavit of _____, and the Court having considered and determined the fairness and reasonableness of the award of attorneys' fees and expenses requested by Lead Plaintiffs' Counsel; and all capitalized terms used herein having the meanings as set forth and defined in the Stipulation.

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

1. The Court has jurisdiction over the subject matter of the Action, the Lead Plaintiffs, all U.S. Global Class Members, and the Defendants.

2. The Court finds that the prerequisites for a class action under (United States) Federal Rules of Civil Procedure 23(a) and (b) (3) have been satisfied in that: (a) the number of U.S. Global Class Members is so numerous that joinder of all members thereof is impracticable; (b) there are questions of law and fact common to the U.S. Global Class; (c) the claims of the U.S. Global Class Representatives are typical of the claims of the U.S. Global Class they seek to represent; (d) the Class Representatives have and will fairly and adequately represent the interests of the U.S. Global Class; (e) the questions of law and fact common to the members of

the U.S. Global Class predominate over any questions affecting only individual member of the U.S. Global Class; and (f) a class action is superior to other available methods for the fair and efficient adjudication of the controversy.

3. Pursuant to Rule 23 of the (United States) Federal Rules of Civil Procedure this Court hereby finally certifies this action as a class action on behalf of all persons and entities who purchased Nortel common stock, or purchased call options on Nortel common stock, or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the period between April 24, 2003 through April 27, 2004, inclusive, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from the U.S. Global Class are (i) the Defendants; (ii) James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Dough Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michael Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia); (iii) members of the immediate family of each of the Defendants and/or any of the individuals referenced above; (iv) any entity in which any Defendant and/or any of the individuals referenced above has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or director of Nortel or any of its subsidiaries or affiliates during the Class Period; and (vii) the legal representatives, heirs, predecessors, successors or assigns of any of the excluded persons or entities. Also excluded from the U.S. Global Class for this Action are the person and/ or entities who have required

exclusion from the U.S. Global Class by filing a request for exclusion as listed on Exhibit 1 annexed hereto.

4. Notice of the pendency of this Action as a class action and of the proposed Settlement was given to all U.S. Global Class Members who could be identified with reasonable effort. The form and method of notifying the U.S. Global Class of the pendency of the action as a class action and of the terms and conditions of the proposed Settlement met the requirements of Rule 23 of the (United States) Federal Rules of Civil Procedure, Section 21D(a)(7) of the (United States) Securities Exchange Act of 1934, 15 U.S.C. 78u-4(a)(7), as amended, including by the (United States) Private Securities Litigation Reform Act of 1995 (the "PSLRA"), Rule 23.1 of the Local Rules of the Southern and Eastern Districts of New York, due process, and any other applicable law, constituted the best notice practicable under the circumstances, and constituted due and sufficient notice to all persons and entities entitled thereto.

5. The Settlement is approved as fair, reasonable and adequate. Subject to the terms and provisions of the Stipulation and the conditions therein being satisfied, the parties are directed to consummate the Settlement.

6. The Gross Settlement Shares are to be issued solely in exchange for bona fide outstanding claims. All parties to whom it is proposed to issue such securities have had the right to appear at the hearing on the fairness of the Settlement and adequate notice has been given to all such parties. The Court recognized and acknowledged that one consequence of its approval of the Settlement at the Settlement Fairness Hearing is that, pursuant to Section 3(a)(10) of the (United States) Securities Act of 1933, as amended, 15 U.S.C. § 77c(a)(1), the Gross Settlement Shares may be distributed to Class Members (and to Plaintiffs' Counsel as may be awarded by

the respective Courts for attorneys' fees) without registration and compliance with the prospectus delivery requirements of the U.S. securities laws as the Gross Settlement Shares will be exempt from registration under the (United States) Securities Act of 1933, 15 U.S.C. § 77c(a)(1), as amended, pursuant to Section 3(a)(10) thereunder. The Court also acknowledges that Nortel will rely on such 3(a)(10) exemption (and Nortel will not register the Gross Settlement Shares under the (United States) Securities Act of 1933) based on this Court' s approval of the fairness of the Settlement.

7. The Complaint, which the Court finds was filed on a good faith basis in accordance with the Private Securities Litigation Reform Act and Rule 11 of the (United States) Federal Rules of Civil Procedure based upon all publicly available information, is hereby dismissed in its entirety with prejudice and without costs, except as provided in the Stipulation, as against the Defendants.

8. Lead Plaintiffs and each U.S. Global Class Member who has not validly opted out, whether or not such U.S. Global Class Member executes and delivers a Proof of Claim, on behalf of themselves, their heirs, executors, administrators, successors and assigns, are hereby permanently barred and enjoined from instituting, commencing or prosecuting any and all claims, debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or un-accrued, liquidated or un-liquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and Unknown Claims, (i) that have been asserted in this Action by the U.S. Global Class Members or any of them against any

of the Released Parties, or (ii) that could have been asserted in any forum by the U.S. Global Class Members or any of them against any of the Released Parties which arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint and which relate to the purchase of Nortel common stock or call options on Nortel common stock or the sale of put options on Nortel common stock during the Class Period, or (iii) any oppression or other claims under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions during the Class Period, set forth or referred to in the Nortel II Actions, (the "Settled Claims"), against any and all of the Defendants, their past or present subsidiaries, parents, principal, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, attorneys, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with any of the Defendants, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the Defendants (the "Released Parties"); *provided, however*, that "Settled Claims" does not mean or include (a) claims, if any, against the Released Parties arising under the (United States) Employee Retirement Income Security Act of 1974, as amended, 29 U.S.C. §1001, *et seq*. ("ERISA") which are not common to all U.S. Global Class Members and which are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537;

(b) the action in *Rohac, et al. v. Nortel Networks Corporation, et al*., Court File No. 04-CV-3268 (Ont. Sup. Ct. J.); and (c) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the Canada Business Corporations Act to commence a representative action in the name of and on behalf of Nortel against certain of the Released Parties (the "Derivative Application"). Each U.S. Global Class Member who has not validly opted out has fully, finally, and forever released, relinquished, and discharged all Settled Claims against the Released Parties and each such U.S. Global Class Member is bound by this judgment, including without limitations, the release of claims as set forth in the Stipulation. The Settled Claims are hereby compromised, settled, released, discharged and dismissed as against the Released Parties on the merits and with prejudice by virtue of the proceedings herein and this Order and Final Judgment.

9. Defendants Nortel, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr., and the successors and assigns of any of them, are hereby permanently barred and enjoined from instituting, commencing or prosecuting any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, state, provincial, local, statutory or common law or any other law, rule or regulation, including both known claims and unknown claims, that have been or could have been asserted in the Action or any forum by the Defendants or any of them or the successors and assigns of any of them against any of the Lead Plaintiffs, U.S. Global Class Members or their attorneys, which arise out of or relate in any way to the institution, prosecution, or settlement of the Action (except for claims to enforce the Settlement, confidentiality obligations or in respect of the Derivative Application) (the "Settled Defendant' s Claims"). The Settled Defendants' Claims of

all the Released Parties are hereby compromised, settled, released discharged and dismissed on the merits and with prejudice by virtue of the proceedings herein and this Order and Final judgment. In the event that any of the Released Parties asserts against the Lead Plaintiff, any U.S. Global Class Member or their respective counsel, any claim that is a Settled Defendants' Claim, then Lead Plaintiff, such U.S. Global Class Member or counsel shall be entitled to use and assert such factual matters included within the Settled Claims only against such Released Party in defense of such claim but not for the purposes of asserting any claim against any Released Party.

10. Pursuant to the PSLRA, the Released Parties are hereby discharged from all claims for contribution by any person or entity other than by Released Parties, whether arising under state, provincial, federal or common law, based upon, arising out of, relating to, or in connection with the Settled Claims of the U.S. Global Class or any U.S. Global Class Member. Accordingly, to the full extent provided by the PSLRA, the Court hereby bars all claims for contribution: (a) against the Released Parties by any persons or entity other than the Released Parties; and (b) by the Released Parties against any person or entity other than the Released Parties.

11. Neither this Order and Final Judgment, the Stipulating, nor any of its terms and provisions, nor any of the negotiations or proceedings connected with it, nor any of the documents or statements referred to therein shall be:

(a) offered or received against the Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of the Defendants with respect to the truth of any fact alleged by any of the plaintiffs or the validity of any claim that has been or could have been asserted in the Action or in any litigation, or the

deficiency of any defense that has been or could have been asserted in the Action or in any litigation, or of any liability, negligence, fault, or wrongdoing of the Defendants;

(b) offered or received against the Defendants as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant;

(c) offered or received against the Defendants as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against any of the Defendants, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of the Stipulation; provided, however, that Defendants may refer to it to effectuate the liability protection grate them hereunder;

(d) construed against the Defendants as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial; or

(e) construed as or received in evidence as an admission, concession or presumption against Lead Plaintiffs or any of the U.S. Global Class Members that any of their claims are without merit, or that any defenses asserted by the Defendants have any merit, or that damages recoverable under the Complaint would not have exceeded the Gross Settlement Fund.

12. The Plan of Allocation is approved as fair and reasonable, and Plaintiffs' Counsel and the Claims Administrator are directed to administer the Stipulation in accordance with its terms and provisions.

13. The Court finds that all parties and their counsel have complied with each requirement of Rule 11 of the (United States) Federal Rules of Civil Procedure as to all proceedings herein.

14. Lead Plaintiffs' Counsel in this Action are hereby awarded attorneys' fees in the amount of _____% of the Gross Cash Settlement Fund (net of litigation expenses awarded in the nest sentence), and ___% of the Gross Settlement Shares, which amounts the Court finds to be fair and reasonable. Lead Plaintiffs' Counsel are hereby awarded $_____ in reimbursement of expenses, which expenses shall be paid to Plaintiffs' Lead Counsel from the Gross Cash Settlement Fund with interest from the date such Gross Cash Settlement Fund was funded to the date of payment at the same net rate that the Gross Cash Settlement Fund earns. The award of attorneys' fees shall be allocated among plaintiffs' counsel in a fashion which, in the opinion of Plaintiffs' Lead Counsel, fairly compensates such counsel for their respective contributions in the prosecution and settlement of the Action.

15. The fees and expenses of plaintiffs' counsel in the Canadian Actions, as determined by the Canadian Courts shall be paid from the Gross Settlement Fund.

16. Lead Plaintiff Ontario Teachers' Pension Plan Board is hereby awarded $_____, and the Department of the Treasury of the State of New Jersey and its Division of Investment is hereby awarded $_____. Such awards are for reimbursement of their reasonable costs and expenses (including lost wages) directly related to its representation of the U.S. Global Class.

17. In making this award of attorneys' fees and reimbursement of expenses to be paid from the Gross Settlement Fund, the Court has considered and found that:

(a) the Settlement has created a cash fund of $370,157,428 that is already on deposit earning interest, and will also provide from the benefit of the Class 314,333,875 shares of Nortel common stock;

(b) the Settlement will entitle the Class to receive one-quarter of any actual gross recovery by Nortel in the existing litigation by Nortel against Frank Dunn, Douglas Beatty and Michael Gollogly (including the value of any monetary benefit that Nortel might receive from the defendants by way of forgiveness or cancellation of any monetary debt owed by Nortel to such defendants), excluding attorneys' fees and expenses warded by the court, if any;

(c) Nortel has agreed to adopt the corporate governance enhancements described in Appendix A to Tab 1 to Exhibit A of the Stipulation;

(d) Over _____ copies of the Notice were disseminated to putative Class Members indicating that Lead Plaintiffs' Counsel were moving for attorneys' fees in the amount of up to 10% of the Gross Settlement Fund less litigation expenses awarded by the Court, and for reimbursement of expenses in an amount of approximately $4.3 million, and [_____] objections were filed against the terms of the proposed Settlement or the ceiling on the fees and expenses requested by Lead Plaintiffs' Counsel contained in the Notice;

(e) Lead Plaintiffs' Counsel have conducted the litigation and achieved the Settlement with skill, perseverance and diligent advocacy;

(f) The action involves complex factual and legal issues and was actively prosecuted over 2 years and, in the absence of a settlement, would involve further lengthy proceedings with uncertain resolution of the complex factual and legal issues;

(g) Had Lead Plaintiffs' Counsel not achieved the Settlement there would remain a significant risk that Lead Plaintiffs and the Class may have recovered less or nothing from the Defendants;

(h) Lead Plaintiffs' Counsel have devoted over _____ hours, with a lodestar value of $_____, to achieve the Settlement; and

(i) The amount of attorneys' fees awarded and expenses reimbursed from the Settlement Fund are fair and reasonable and consistent with awards in similar cases.

18. Any appeal or any challenge affecting the approval of (a) the Plan of Allocation submitted by Lead Plaintiffs' Counsel and/or (b) this Court' s approval regarding any attorneys' fees and expense application shall in no way disturb or affect the finality of the other provisions of this Final Judgment.

19. Jurisdiction is hereby retained over the parties and the U.S. Global Class Members for all matters relating to this Acting, including the administration, interpretation, effectuation or enforcement of the Stipulation and this Order and Final Judgment, and including any application for fees and expenses incurred in connection with administering and distributing the settlement proceeds to the members of the U.S. Global Class.

20. In the event that the Settlement does not become final in accordance with the terms of the Stipulation, or is terminated pursuant to ¶ 27 of the Stipulation, this judgment shall be rendered null and void to the extent provided by and in accordance with the Stipulation and shall be vacated and in such event all orders entered and released by and in accordance with the Stipulation.

21. Without further order of the Court, the parties may agree to reasonable extensions of time to carry out any of the provisions of the Stipulation.

22. There is no just reason for delay in the entry of this Order and Final Judgment and immediate entry by the Clerk of the Court is expressly directed pursuant to Rule 54(b) of the (United States) Federal rules of Civil Procedure.

Dated: New York, New York
_____, 2006

_____
[Insert Judge Name: Honorable_____]
UNITED STATES DISTRICT JUDGE

Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

EXHIBIT C

SUPPLEMENTAL AGREEMENT - NORTEL II

Pursuant to ¶ 23 of the Nortel II Stipulation and Agreement of Settlement dated June 20, 2006 (the "Stipulation") between Lead Plaintiffs and Nortel in *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP), as also adopted and ratified by Canadian Class Counsel in the Nortel Il Canadian Actions, the terms under which Nortel may withdraw from and terminate the Stipulation are as follows:

1. All capitalized terms used, but not defined herein, shall have the meanings ascribed to them in the Stipulation.

2. Nortel shall have the option, but not the obligation, to terminate the Settlement in the event that the aggregate number of shares of Nortel common stock purchased during the Class Period by Class Members who would otherwise be entitled to participate as members of the Class, but who timely and validly request exclusion, equals or exceeds [ ] (the "Opt-out Threshold") of the total number of shares of Nortel common stock purchased during the Class Period.

3. Nortel shall further have the option, but not the obligation, to terminate the Settlement in the event that the aggregate number of shares of Nortel common stock purchased during the Nortel I Class Period by members of the Nortel 1 Class who would otherwise be entitled to participate as members of the Nortel I Class, but who timely and validly request exclusion, equals or exceeds [ ] of the total number of shares of Nortel common stock purchased during the Nortel I Class Period.

4. It is expressly understood and agreed that, for the purposes of calculating the Opt-out Threshold in ¶ 3, the only persons and entities who will be included in the calculation are those persons and entities who are Class Members, excluding those persons or entities who previously requested exclusion in response to the Notice of Pendency, as listed on Tab I to Exhibit B annexed to the Nortel I Stipulation, whether or not they are Class Members.

5. Lead Plaintiffs and Nortel, with the cooperation of Canadian Class Counsel, shall make every effort to ensure that the first settlement fairness hearing in any of the Nortel II Actions shall be scheduled no earlier than fifteen (15) calendar days after the last date for exclusion in any of the Nortel II Actions.

6. Subject to the dates for exclusion and the terms of ¶ 5, the Preliminary Approval Order shall provide that requests for exclusion shall be received at least fifteen (15) calendar days prior to the date of the Settlement Fairness Hearing before the United States District Court for the Southern District of New York ("U.S. Settlement Fairness Hearing") specified in the Notice. Upon receiving any request(s) for exclusion pursuant to the Notice, the Claims Administrator shall promptly (or in no event fewer than ten (10) calendar days prior to the U.S. Settlement Fairness Hearing date) notify Plaintiffs' Counsel and Nortel' s Counsel of such request(s) for exclusion. Upon receiving any request(s) for exclusion pursuant to the Notice, Nortel' s Counsel shall promptly notify Plaintiffs' Counsel and the Claims Administrator of such request(s) for exclusion.

7. If Nortel elects to exercise either of the options set forth in ¶ 2 or ¶ 3 hereof, written notice of such election must be provided to Plaintiffs' Counsel at least five (5) calendar days prior to the U.S. Settlement Fairness Hearing.

8. In the event that Nortel files a written notice of its intent to terminate the Settlement pursuant to ¶ 7 hereof, Nortel may withdraw its election by providing written notice of such withdrawal to Plaintiffs' Counsel no later than 5:00 P.M. Eastern Time on the day prior to the U.S. Settlement Fairness Hearing, or by such later time as shall be agreed upon in writing as between Lead Plaintiffs' Counsel and Nortel' s Counsel, on notice to Canadian Class Counsel.

9. If Nortel elects to withdraw from the Stipulation pursuant to ¶ 2 or ¶ 3 hereof, Plaintiffs' Counsel may, within five (5) calendar days of receipt of such notice of intention to withdraw from the Settlement (or such longer period as shall be agreed upon in writing between Lead Plaintiff' s Counsel and Nortel' s Counsel), review the validity of any request for exclusion. and may attempt to cause retraction or withdrawal of any such request for exclusion. If, within the five (5) calendar day period (or longer period agreed upon in writing), Plaintiffs' Counsel succeed in causing the filing of retractions or withdrawals (which retractions and withdrawals shall be in form and substance acceptable to Nortel' s Counsel) of a sufficient number of requests for exclusion such that the number of shares represented by the remaining requests for exclusion does not constitute grounds for withdrawal as specified in ¶ 2 or ¶ 3 above, then any withdrawal from the Stipulation by Nortel shall automatically be deemed to be a nullity. To retract or withdraw a prior request for exclusion, a Class Member or member of the Nortel II class must file a signed written notice with either the United States District Court for the Southern District of New York or, in the case of Canadian Class Members, the Canadian Court that certified the Canadian Class to which the Class Member belongs, stating that the person or entity retracts or withdraws his, her or its request for exclusion and that the person or entity agrees to be bound by the Settlement and the Judgments in these Nortel II or Nortel I Actions as the case may be;

provided, however, that the filing of such written notice signed by the Class Member or member of the Nortel II class may be effected by Plaintiffs' Counsel on written direction by the Class Member or member of the Nortel II Class. Upon receipt of such written notice from such a Class Member or member of the Nortel II class, Plaintiffs' Counsel shall provide a copy of such written notice to Nortel' s Counsel.

10. If Nortel elects to withdraw from the Stipulation in accordance with ¶ 2 or ¶ 3 of this Supplemental Agreement and such withdrawal is not nullified in accordance with ¶ 8 of this Supplemental Agreement, the Stipulation shall be withdrawn and terminated and deemed null and void, and the provisions of ¶ 28 of the Stipulation shall apply.

11. The Parties intend that the Opt-out Threshold in this Supplemental Agreement be maintained as confidential. Subject to orders of the Courts, the Supplemental Agreement shall not be filed with the Courts in such a manner so as to disclose publicly the Opt-out Threshold itself prior to the deadline for submitting requests for exclusion unless a dispute arises as to its terms. Notwithstanding the foregoing, the Opt-out Threshold may be disclosed to the Courts, as may be required by the Courts, for purposes of approval of the Settlement, but such disclosure shall be carried out to the fullest extent possible in accordance with the practices of the respective Courts so as to maintain the confidentiality of the Opt-out Threshold.

Confidential Portions omitted and filed separately with the Securities and Exchange Commission. Bullet points denote omissions.

DATED: June 20, 2006

BERNSTEIN LITOWITZ BERGER & GROSSMANN LLP

By: /s/ Max W. Berger
Max W. Berger (MB 5010)
John P. Coffey (JC-3832)
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Lead Plaintiffs' Counsel

SHEARMAN & STERLING LLP

By: /s/ Stuart J. Baskin
Stuart J. Baskin (SB-9936)
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New York, New York 10022-6069
Telephone: (212) 848-4000
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Nortel' s Counsel

EXHIBIT D

Court File No. 05-CV-285606CP

ONTARIO
SUPERIOR COURT OF JUSTICE

THE HONOURABLE SENIOR REGIONAL	)	DAY, THE DAY
JUSTICE WINKLER	)	OF , 2006
BETWEEN:	)	

PETER GALLARDI

Plaintiff

- and -

NORTEL NETWORKS CORPORATION, FRANK A. DUNN
DOUGLAS BEATTY, MICHAEL GOLLOGLY,
JOHN EDWARD CLEGHORN, ROBERT ELLIS BROWN,
ROBERT ALEXANDER INGRAM, GUYLAINE SAUCIER,
SHERWOOD HUBBARD SMITH, JR. AND DELOITTE & TOUCHE LLP

Defendants

Proceedings under the Class Proceeding Act, 1992

ORDER

THIS MOTION made by the Plaintiff for an Order certifying this action s a class proceeding for the purpose of settlement, approving the notice to class members ;rid other declaratory relief was heard this day at the Court House, 361 University Avenue, Toronto, Ontario.

ON READING the materials filed, including the Settlement Agreement (defined herein), and on hearing the submissions of counsel for the Plaintiff and counsel for the Defendants:

1. **THIS COURT ORDERS AND DECLARES** that for the purposes of this order the following definitions apply and are incorporated into this Order:

(a) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 10 herein to administer the **Settlement**;

(b) "**Class Members**" means members of the Ontario National Class, he Quebec Class and the U.S. Global Class;

(c) "**Class Period**" means the period of time between April 24, 2003 through April 27, 2004, inclusive;

(d) "**Courts**" means this Court, the Supreme Court of British Columbia and the United States District Court for the Southern District of New York;

(e) "**Defendants**" means the persons and entities named as defendants in the **Ontario National Action**;

(f) "**Escrow Agent**" has the meaning set forth in the Stipulation;

(g) "**Excluded Persons**" means: (i) Nortel and the **Individual Defendants**; (ii) the **Other Individuals**; (iii) members of any of the **Individual Defendants'** immediate families; (iv) any entity in which Nortel or any of the **Individuals Defendants** or the **Other Individuals** has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or directors of Nortel or any of its subsidiaries or affiliates during the **Class Period**; and (vii) legal representatives, heirs, predecessors, successors or assigns of any of the Excluded Persons;

(h) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(i) "**Gross Settlement Fund**" has the meaning set forth in the **Stipulation**;

(j) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the Settlement, as may b adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(k) "**Individual Defendants**" means Frank A. Dunn, Douglas Beatty, Michael Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier and Sherwood Hubbard Smith, Jr.;

(l) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(m) "**Nortel II Actions**" means the **Ontario National Action**, the **Quebec Action**, and the U.S. Action;

(n) "**Nortel II Defendants**" means Nortel, the **Individual Defendants** and Deloitte & Touche LLP;

(o) "**Notice**" means the notice to the class in the **Nortel II Actions**, substantially in the form attached as Schedule "B" to this Order;

(p) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice**, **Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "E" to this Order;

(q) "**Ontario National Action**" means this proceeding which raises claims in the nature of negligence, negligent and/or reckless misrepresentation, and alleges breaches of the *Canada Business Corporations Act*, *Competition Act* and *Ontario Securities Act*, for which relief is sought through an award of damages;

(r) "**Ontario National Class**" means the class certified for the purpose of settlement in the **Ontario National Action** pursuant to paragraph 3 of this Order;

(s) "**Ontario National Class Counsel**" means Rochon Genova LLP ad Lerners LLP;

(t) "**Ontario National Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Ontario National Class Counsel**;

(u) "**Ontario National Class Member**" means a member of the **Ontario National Class** who does not opt out of the **Ontario National Class** in the manner set forth in this Order;

(v) "**Other Individuals**" means James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' 5 Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia);

(w) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order;

(x) "**Publication Notice**" means the summary notice of certification and proposed settlement, and of the hearing of the **Settlement Approval Motion**, substantially in the form attached as Schedule "D" to this Order;

(y) "**Representative Plaintiffs**" means, collectively, the representative : or lead plaintiffs in each of the **Nortel II Actions**;

(z) "**Quebec Action**" means the proceeding in the Superior Court of Quebec (District of Montreal), *Clifford W. Skarstedt v. Corporation Nortel Networks*, No. 500-06-000277-059;

(aa) "**Quebec Class**" means all persons and "entities", except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**. For purposes of the definition of Quebec Class, an

entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it s dealing at arm' s length with the representative of the Quebec Class;

(bb) "**Released Parties**" means any and all of the **Nortel II Defendants**, their past or present subsidiaries, parents, principals, affiliates, general o- limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment 'advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel II Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel II Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel II Defendants**;

(cc) "**Settled Claims**" means any and all claims, debts, demands, rights Br causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever) whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel II Actions** against any of the Released Parties, or (ii) that could have been asserted in any forum by the Class Members in the Nortel II Actions, or any of them, against any of the Released Parties, that arise out of or e based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Nortel II Actions and that relate to the purchase of Nortel common stock or ca I options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Business Corporations Act*, R.S.C. 1985, c. C44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the Nortel II Actions. "**Settled Claims**" does not mean or include claims, if any, against the Released Parties: (a) arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, *et seq*. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA' Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include: (a) the action in Rohac et al v. *Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario

Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties**;

(dd) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached as Schedule "A" thereto, entered into between the Plaintiffs and Norel, dated June 20, 2006, which is attached to this Order as Schedule "A";

(ee) "**Settlement**" means the proposed settlement of the **Nortel II Actions** pursuant to the terms set forth in the **Settlement Agreement** adopting and ratifying the **Stipulation**;

(ff) "**Settlement Approval Motion**" means the motion for final approval of the Settlement by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(gg) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the Settlement Agreement as Schedule "A";

(hh) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the Stipulation setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(ii) "**Unknown Claims**" means any and all **Settled Claims** which a y of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(jj) "**U.S. Action**" means the proceeding in the U.S. Federal District Court for the Southern District of New York, Master File No. 05-MD-1659 (LAP);

(kk) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Norte) Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange.

2. **THIS COURT ORDERS** that the Ontario National Action be certified as a class proceeding for the purpose of settlement.

3. **THIS COURT ORDERS** that the Ontario National Class be defined as:

All persons and entities, except Excluded Persons and members of the Quebec Class, who, while resident in Canada at the time, purchased Nortel common stock or call options on Norte) common stock or wrote (sold) put options on Nortel common stock during the Class Period.

4. **THIS COURT ORDERS** that Peter Gallardi be and is hereby appointed as the representative plaintiff for the Ontario National Class.

5. **THIS COURT ORDERS** that the Ontario National Action is certified of a class proceeding for the purpose of settlement on the basis of the following common issuer

Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings during the Class Period?

6. **THIS COURT ORDERS** that the Settlement Approval Motion and the motion by Ontario National Class Counsel for approval of Ontario National Class Counsel Fees shall be heard by this Court on a date to be set by the Registrar, approximately 90 days from the date set herein for the mailing of the notice at the Court House at 361 University Avenue, Toronto, Ontario.

7. **THIS COURT ORDERS** that each potential member of the Ontario National Class who elects to opt out of the Ontario National Class must do so by writing a letter, signed by such person, clearly requesting exclusion and clearly indicating the name, address and telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common stock or call options on Nortel common stock and of all put options of Nortel common stock written (sold) during the Class Period, and sending it by first class mail post marked no later than 60 days after the date set herein for the mailing of the Notice, to the address indicated in the Notice.

8. **THIS COURT ORDERS** that any potential member of the Ontario National Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any future

Orders in the Ontario National Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in each of the Actions.

9. **THIS COURT ORDERS** that any potential member of the Ontario National Class who opts out of the Ontario National Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel II Actions, shall not be entitled to file a Proof of Claim as provided in paragraph 19 of this Order, shall not be entitled to receive any payment out of the Settlement and shall not be entitled to object to the approval of the Settlement as provided in paragraph 21 of this Order,

10. **THIS COURT ORDERS** that The Garden City Group, Inc. is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the Ontario National Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

11. **THIS COURT ORDERS** that the Escrow Agent, acting in its capacity as escrow agent, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

12. **THIS COURT ORDERS** that the form and content of the Notice, substantial y in the form attached hereto as Schedule "B", is hereby approved.

13. **THIS COURT ORDERS** that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

14. **THIS COURT ORDERS** that the plan of dissemination of the Notice substantially in the manner described in the Notice Plan attached to this Order as Schedule "D" is hereby approved.

15. **THIS COURT ORDERS** that upon approval of the Notice and the Proof (1)f Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the

Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, on or before 14 days after entry of the last order by any of the courts in the Nortel II Actions and the Nortel I Actions (as defined in the Stipulation) approving the Notice applicable to that proceeding who can be identified with reasonable effort, in accordance with the Notice Plan.

16. **THIS COURT ORDERS** that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

17. **THIS COURT ORDERS** that Ontario National Class Counsel shall, at or *fore the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

18. **THIS COURT ORDERS** that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved, and directs that Claims Administrator shall cause the Publication Notice to be published in accordance with the Notice Plan, which publication shall begin within ten (10) days of the mailing of tie Notice, and Ontario National Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

19. **THIS COURT ORDERS** that in order to be entitled to participate i the Net Settlement Fund (as defined in the Stipulation), each Ontario National Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than 120 days after the date set herein for the mailing of the Notice. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund.

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

20. **THIS COURT ORDERS** that the Proof of Claim submitted by each Ontario National Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Ontario National Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

21. **THIS COURT ORDERS** that, as part of the Proof of Claim, each Ontario National Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts) release all Settled Claims against the Released Parties.

22. **THIS COURT ORDERS** that Ontario National Class Members who wish to (file with the Court an objection or comment to the Settlement or to the approval of Ontario National Class

Counsel Fees shall deliver a written submission to the Claims Administrator at the address indicated in the Notice, no later than 60 days after the date set herein for the mailing of the Notice , and the Claims Administrator shall file all such submissions with the Court prior to the hearing of the Settlement Approval Motion.

23. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel ‘pursuant to the Supplemental Agreement and paragraph 26 in the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) the Settlement is terminated pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the certification of the action as a class proceeding for the purpose of settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the Ontario National Action` shall be restored to his, her or its respective position in the litigation as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this Action shall be decertified s a class proceeding pursuant to Section 10 of the *Class Proceedings Act*, 1992, without prejudice to the Plaintiff` s ability to reapply for certification.

24. **THIS COURT ACKNOWLEDGES** having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon b Nortel for an exemption, pursuant to Section 3(a)(10) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), to enable the Gross Settlement Shares to be distributed to Class Members, and to counsel for the Representative Plaintiffs as may be awarded by the respective Courts for counsel fees, without registration and compliance with the prospectus delivery requirements of U.S. securities laws.

25. **THIS COURT DECLARES** that Schedule "A" hereto satisfies the requirements of subsections 8(1)(c) and (d) of the Class Proceedings Act, 1992.

EXHIBIT E

CANADA (CLASS ACTION)

PROVINCE OF QUÉBEC
DISTRICT OF MONTREAL

SUPERIOR COURT

NO: 500-06-000277-059

CLIFFORD W. SKARSTEDT

Petitioner
-v.

CORPORATION NORTEL NETWORKS

Respondent

and

FONDS D' AIDE AUX RECOURS COLLECTIFS

Mis en cause

ORDER

THIS MOTION made by the Petitioner for a Judgment authorizing the bringing of the class action for the purpose of settlement pursuant to the Stipulation and Agreement of Settlement (the "Settlement Agreement") entered into between the Petitioner and the Respondent was heard this day.

ON READING the materials filed, including the Settlement Agreement (and the exhibits/schedules thereto) attached to this Order as Schedule "A", and on hearing the submissions of counsel for the Petitioner and counsel for the Respondent:

1. **THIS COURT ORDERS AND DECLARES** that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 10 to administer the **Settlement**;

(b) "**Class Members**" means members of the Ontario National Class, the Quebec Class and the U.S. Global Class;

(c) "**Class Period**" means the period of time between April 24, 2003 through April 27, 2004, inclusive;

(d) "**Courts**" means the **Ontario Court**, the **Quebec Court** and the **U.S. Court**;

(e) "**Defendant**" means the Respondent, Corporation Nortel Networks;

(f) "**Escrow Agent**" has the meaning set forth in the **Stipulation**;

(g) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals'** immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(h) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(i) "**Gross Settlement Fund**" has the meaning set forth in the **Stipulation**;

(j) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(k) "**Individuals**" means Frank A. Dunn, Douglas Beatty, Michael Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, Sherwood Hubbard Smith, Jr., James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia);

(l) "**Nortel**" means the Respondent, Corporation Nortel Networks;

(m) "**Nortel II Actions**" means the **Ontario National Action**, the **Quebec Action** and the **U.S. Action**;

(n) "**Nortel II Defendants**" means Nortel, Frank A. Dunn, Douglas Beatty, Michael Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, Sherwood Hubbard Smith, Jr. and Deloitte & Touche LLP;

(o) "**Notice**" means the global notice to the classes in the **Nortel II Actions** substantially in the form attached as Schedule "B" to this Order, as approved in paragraph 12 of this Order;

(p) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice, Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "D" to this Order;

(q) "**Ontario Court**" means the Ontario Superior Court of Justice;

(r) "**Ontario National Action**" means the proceeding in the Ontario Superior Court of Justice, *Gallardi v. Nortel Networks Corporation et al*., Court File No. 05-CV-285606CP;

(s) "**Ontario National Class**" means all persons, except **Excluded Persons** and except members of the **Quebec Class**, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(t) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order, as approved in paragraph 13 of this Order;

(u) "**Publication Notice**" means the summary notice of certification and proposed settlement, and of the hearing of the **Settlement Approval Motion**, substantially in the form attached as Schedule "E" to this Order, as approved in paragraph 18 of this Order;

(v) "**Quebec Action**" means this proceeding;

(w) "**Quebec Class**" means all persons and entities, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) Nortel put options on Nortel common stock during the **Class Period**. For purposes of the definition of **Quebec Class**, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm' s length with the representative of the **Quebec Class**;

(x) "**Quebec Class Counsel**" means Trudel & Johnston;

(y) "**Quebec Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Quebec Class Counsel**;

(z) "**Quebec Class Member**" means a member of the **Quebec Class** who does not opt out of, or request exclusion from, the **Quebec Class** in the manner set forth in this Order;

(aa) "**Quebec Court**" means the Superior Court of Quebec;

(bb) "**Released Parties**" means any and all of the **Nortel II Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, attorneys, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel II Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel II Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel II Defendants**;

(cc) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Nortel II Actions**;

(dd) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel II Actions** against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel II Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel II Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel II Actions**. **Settled Claims** does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act of 1974*, as amended, 29 U.S.C. § 1001, *et seq*. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks*

Securities and "ERISA' Litigation, MDL Docket No. 1537. **Settled Claims** further does not include: (a) the action in *Rohac et al. v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties**;

(ee) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached thereto, entered into between the Plaintiff herein and Nortel, through their counsel dated June ___, 2006, which is attached to this Order as Schedule "A";

(ff) "**Settlement**" means the proposed settlement of the **Nortel II Actions** pursuant to the terms set forth in the **Settlement Agreement** adopting and ratifying the **Stipulation**;

(gg) "**Settlement Approval Motion**" means the motion for final approval of the **Settlement** by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(hh) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the Settlement Agreement as Schedule "A";

(ii) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(jj) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(kk) "**U.S. Action**" means the proceeding in the United States Federal District Court for the Southern District of New York, *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP);

(ll) "**U.S. Court**" means the U.S. Federal District Court for the Southern District of New York; and

(mm) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange.

2. **THIS COURT ORDERS** that the bringing of the Quebec Action as a class action be authorized for the purpose of settlement.

3. **THIS COURT ORDERS** that the Quebec Class be defined as:

> All persons and entities, except Excluded Persons who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) Nortel put options on Nortel common stock during the Class Period. For purposes of the definition of Quebec Class, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm' s length with the representative of the Quebec Class.

4. **THIS COURT ORDERS** that Clifford W. Skarstedt be and is hereby appointed as the representative for the Quebec Class.

5. **THIS COURT ORDERS** that the bringing of the Quebec Action as a class action is authorized for the purpose of settlement only, on the basis of the following common issue:

> Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings during the Class Period?

6. **THIS COURT ORDERS** that the Settlement Approval Motion and the motion by Quebec Class Counsel for approval of Quebec Class Counsel Fees shall be heard by this Court on _____, 2006, at ___:___.m. at the Montreal Court House, located at 1, Notre-Dame Street East, Montreal, Quebec.

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7. **THIS COURT ORDERS** that each potential member of the Quebec Class who elects to opt out of the Quebec Class must do so by writing a letter, signed by such person, clearly requesting exclusion and clearly indicating the name, address and telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common stock or call options on Nortel common stock and of all put options of Nortel common stock written (sold) during the Class Period, and sending it by first class mail post marked no later than _____, 2006, to the address indicated in the Notice.

8. **THIS COURT ORDERS** that any potential member of the Quebec Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any future Orders in the Quebec Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in each of the Nortel II Actions.

9. **THIS COURT ORDERS** that any potential member of the Quebec Class who opts out of the Quebec Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel II Actions, shall not be entitled to file a Proof of Claim as provided in paragraph 20 of this Order, shall not be entitled to receive any payment out of the Settlement and shall not be entitled to object to the approval of the Settlement as provided in paragraph 22 of this Order.

10. **THIS COURT ORDERS** that The Garden City Group, Inc. is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the Quebec Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

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11. **THIS COURT ORDERS** that the Escrow Agent acting in its capacity as escrow agent, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

12. **THIS COURT ORDERS** that the form and content of the Notice, substantially in the form attached hereto as Schedule "B", is hereby approved.

13. **THIS COURT ORDERS** that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

14. **THIS COURT ORDERS** that the plan of dissemination of the Notice in the manner described in the Notice Plan attached to this Order as Schedule "D", is hereby approved.

15. **THIS COURT ORDERS** that upon approval of the Notice and the Proof of Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, on or before _____, 2006, to all of the Quebec Class Members who can be identified with reasonable effort, in accordance with the Notice Plan.

16. **THIS COURT ORDERS** that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

17. **THIS COURT ORDERS** that Quebec Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

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18. **THIS COURT ORDERS** that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved, and directs that Claims Administrator shall cause the Publication Notice to be published in accordance with the Notice Plan, which publication shall begin within ten (10) days of the mailing of the Notice, and Quebec Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

19. **THIS COURT ORDERS** that in order to be entitled to participate in the Net Settlement Fund (as defined in the Stipulation), each Quebec Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than _____, 2006. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund (as defined in the Stipulation).

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

20. **THIS COURT ORDERS** that the Proof of Claim submitted by each Quebec Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Quebec Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

21. **THIS COURT ORDERS** that, as part of the Proof of Claim, each Quebec Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts) release all Settled Claims against the Released Parties.

22. **THIS COURT ORDERS** that Quebec Class Members who wish to file with the Court an objection or comment to the Settlement or to the approval of Quebec Class Counsel Fees shall deliver a written submission to the Claims Administrator at the address indicated in the Notice, no later than _____, 2006, and Claims Administrator shall file all such submissions with the Court prior to the hearing of the Settlement Approval Motion.

23. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 in the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) the Settlement is termination pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the authorization of the bringing of the Quebec Action as a class action for the purpose of settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the Quebec Action shall be restored to his, her or its respective position in the litigation as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this Action

authorizing the bringing of the class action shall be annulled pursuant to the *Code of Civil Procedure*, without prejudice to the Petitioner' s ability to reapply for certification.

24. **THIS COURT ACKNOWLEDGES** having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon by Nortel for an exemption, pursuant to Section 3(a)(10) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), to enable the Gross Settlement Shares to 'be distributed to Class Members, and to counsel for the Representative Plaintiffs as may be awarded by the respective Courts for counsel fees, without registration and compliance with the prospectus delivery requirements of U.S. securities laws.

_____ _____

Date J.C.S.

EXHIBIT F

Court File No. 05-CV-285606CP

ONTARIO
SUPERIOR COURT OF JUSTICE

THE HONOURABLE SENIOR REGIONAL JUSTICE WINKLER	)))	DAY, THE DAY OF , 2006

BETWEEN:

PETER GALLARDI

Plaintiff

- and -

NORTEL NETWORKS CORPORATION, FRANK A. DUNN
DOUGLAS BEATTY, MICHAEL GOLLOGLY,
JOHN EDWARD CLEGHORN, ROBERT ELLIS BROWN,
ROBERT ALEXANDER INGRAM, GUYLAINE SAUCIER,
SHERWOOD HUBBARD SMITH, JR. and DELOITTE & TOUCHE LLP

Defendants

Proceedings under the *Class Proceeding Act*, 1992

ORDER

THIS MOTION made by the Plaintiff for an Order approving the Settlement Agreement and Confirmation of Stipulation of Agreement of Settlement (the "Settlement Agreement") entered into between the Plaintiffs and the Defendant, Nortel Networks Corporation, approving Ontario National Class Counsel Fees and for declaratory relief, was heard this day at 361 University Avenue, Toronto, Ontario.

ON READING the materials filed, including the Settlement Agreement attached to this Order as Schedule "A", and on hearing the submissions of counsel for the Plaintiff and counsel for the Defendants:

1. THIS COURT DECLARES that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**Certification Order**" means the Order certifying this action as a class proceeding dated June ___2006;

(b) "**Claims Administrator**" means The Garden City Group, Inc.;

(c) "**Class Members**" means members of the Ontario National Class, the Quebec Class and the U.S. Global Class;

(d) "**Class Period**" means the period of time between April 24, 2003 through April 27, 2004, inclusive;

(e) "**Courts**" means this Court, the Superior Court of Quebec and the United States Federal District Court for the Southern District of New York;

(f) "**Defendants**" means the persons and entities named as defendants in the **Ontario National Action**;

(g) "**Derivative Application**" application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the Canada Business Corporations Act to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties**;

(h) "**Effective Date**" means the date upon which the **Settlement** contemplated by the **Settlement Agreement** shall become effective, as provided in paragraph 24 of the **Stipulation**;

(i) "**Escrow Agent**" has the meaning set forth in the **Stipulation**;

(j) "**Excluded Persons**" means: (i) Nortel and the **Individual Defendants**; (ii) the **Other Individuals**; (iii) members of any of the **Individual Defendants**' immediate families; (iv) any entity in which Nortel or any of the **Individuals Defendants** or the **Other Individuals** has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or directors of Nortel or any of its subsidiaries or affiliates during the **Class Period**; and (vii) legal representatives, heirs, predecessors, successors or assigns of any of the Excluded Persons;

(k) "**Gross Settlement Fund**" has the meaning set forth in the **Stipulation**;

(l) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(m) "**Individual Defendants**" means Frank A. Dunn, Douglas Beatty, Michael Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier and Sherwood Hubbard Smith, Jr.;

(n) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(o) "**Nortel I Actions**" means the following proceedings in Canada and the U.S.:

(i) *Frohlinger v. Nortel Networks Corporation et al.*, Ontario Superior Court of Justice, Court File No. 02-CL-4605;

(ii) *Association de Protection des Epargnants et Investisseurs du Quebec v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No.: 500-06-000126-017;

(iii) *Jeffery et al. v. Nortel Networks Corporation et al.*, Supreme Court of British Columbia, Vancouver Registry Court File No. S015159; and

(iv) *In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01-CV-1855 (RMB);

(p) "**Nortel II Actions**" means the **Ontario National Action**, the **Quebec Action** and the **U.S. Action**;

(q) "**Nortel II Defendants**" means Nortel, the Individual Defendants and Deloitte & Touche LLP;

(r) "**Ontario National Action**" means this proceeding;

(s) "**Ontario National Class Counsel**" means Rochon Genova LLP and Lerners LLP;

(t) "**Ontario National Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Ontario National Class Counsel**, as approved by this Court in this Order;

(u) "**Ontario National Class**" means all persons, except **Excluded Persons** and except members of the **Quebec Class**, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(v) "**Ontario National Class Member**" means a member of the **Ontario National Class** who has not opted out of the **Ontario National Class** in accordance with the **Certification Order**;

(w) "**Other Actions**" means actions or proceedings, other than the **Proceedings**, relating to **Settled Claims** commenced by an **Ontario National Class Member** against one or more **Released Parties**;

(x) "**Other Individuals**" means James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance

Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia);

(y) "**Plan of Allocation**" means the plan of allocation set forth in the Notice of Certification in Canada and Proposed Settlements of Class Actions, Motion for Attorneys' Fees and Settlement Fairness Hearings and attached as Schedule "B" to this Order;

(z) "**Proceedings**" means the **Ontario National Action**, the **Quebec Action, the U.S. Action** and the **Nortel I Actions**;

(aa) "**Quebec Action**" means the proceeding in the Superior Court of Quebec (District of Montreal), *Clifford W. Skarstedt v. Corporation Nortel Networks*, No: 500-06-000277-059;

(bb) "**Quebec Class**" means all persons and entities, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) Nortel put options on Nortel common stock during the **Class Period**. For purposes of this definition, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm' s length with the representative of **the Quebec Class**;

(cc) "**Released Parties**" means any and all of the **Nortel II Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel II Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel II Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel H Defendants**;

(dd) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Canadian Actions** and the **U.S. Action**;

(ee) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on

United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel II Actions** against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel II Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel II Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel II Actions**. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, *et seq.* ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. Settled Claims further does not include: (a) the action in *Rohac et al v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the **Derivative Application**;

(ff) "**Settled Defendants' Claim**" means any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, provincial, local, statutory or common law or any other law, rule or regulation, including both known claims and Unknown Claims, that have been or could have been asserted in the **Nortel II Actions** or any forum by the **Nortel II Defendants** or any of them or the successors and assigns or any of them against the **Representative Plaintiffs**, any **Class Member**, or their counsel, and that arise out of or relate in any way to the institution, prosecution, or settlement of the **Nortel II Actions** (except Settled Defendants' Claims does not include all claims, rights or causes of action or liabilities whatsoever related to the enforcement of the **Settlement** including, without limitation, any of the terms of the **Stipulation** or orders or judgments issued by the **Courts** in connection with the **Settlement**, confidentiality obligations or in respect of the **Derivative Application**);

(gg) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached thereto, entered into between the Plaintiffs and Nortel, dated as of June 20, 2006, attached to this Order as Schedule "A";

(hh) "**Settlement**" means the proposed settlement of the **Nortel II Actions** pursuant to the terms set forth in the Settlement Agreement adopting and ratifying the **Stipulation**;

(ii) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the **Settlement Agreement** as Schedule "A".

(jj) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(kk) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** and any **Settled Defendants**' **Claims** which any **Nortel II Defendant** does not know or suspect to exist in his, her or its favour, which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(ll) "**U.S. Action**" means the proceeding in the United States Federal District Court for the Southern District of New York, *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP); and

(mm) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange.

2. THIS COURT DECLARES that the Settlement Agreement is fair, reasonable and in the best interests of the Ontario National Class.

3. THIS COURT ORDERS that the Settlement Agreement attached to this Order as Schedule "A" is hereby approved pursuant to s. 29 of the *Class Proceedings Act, 1992*.

4. THIS COURT DECLARES that the Settlement Agreement is binding upon the representative Plaintiff, upon all Ontario National Class Members, and upon the Defendants, including those persons who are minors or mentally incapable, and that the requirements of Rules 7.04(1) and 7.08(4) of the *Rules of Civil Procedure* are dispensed with in respect of the Ontario National Action.

5. THIS COURT ORDERS that, upon the Effective Date, the Plaintiff herein and each of the Ontario National Class Members, on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns, are hereby permanently barred and enjoined from instituting, commencing or prosecuting any Settled Claims against the Released Parties.

6. THIS COURT ORDERS AND DECLARES that, upon the Effective Date, the Plaintiff herein and each of the Ontario National Class Members, on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns shall release and

shall be conclusively deemed to have fully, finally and forever released the Released Parties from the Settled Claims.

7. THIS COURT ORDERS that, upon the Effective Date, the Plaintiff herein and each of the Ontario National Class Members and their respective personal representatives, heirs, executors, administrators, trustees, successors and assigns, shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit, cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date, and are enjoined from doing so.

8. THIS COURT ORDERS that, upon the Effective Date, the defendants Nortel, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier and Sherwood Hubbard Smith, Jr. on behalf of themselves and their personal representatives, heirs, executors, administrators, trustees, successors and assigns, are hereby permanently barred and enjoined from prosecuting a Settled Defendants' Claim against the Plaintiff herein, the Ontario National Class Members or Ontario National Class Counsel. In the event that any of the Released Parties assert against the Plaintiffs, any Ontario National Class Member or the Ontario National Class Counsel, any claim that is a Settled Defendants' Claim, then the Plaintiff, such Class Member or Ontario National Class Counsel, as the case may be, shall be entitled to use and assert such factual matters included within the Settled Claims only against such Released Party in defence of such claim but not for the purposes of asserting any claim against any Released Party.

9. THIS COURT ORDERS AND DECLARES that each Ontario National Class Member shall consent and shall be deemed to have consented to the dismissal of any Other Actions he, she or it has commenced against the Released Parties, without costs and with prejudice.

10. THIS COURT ORDERS that neither this Order, the Settlement Agreement, the Stipulation, nor any of their terms and provisions, nor any of the negotiations or proceedings connected with it, nor any of the documents or statements referred to therein shall be:

(a) offered or received against the Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of the Defendants with respect to the truth of any fact alleged in the Statement of Claim as amended or the validity of any claim that has been or could have been asserted in the Ontario National Action or in any litigation, or the deficiency of any defence that has been or could have been asserted in the Ontario National Action or in any litigation, or of any liability, negligence, fault, or wrongdoing of the Defendants;

(b) offered or received against the Defendants as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant;

(c) offered or received against the Defendants as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against any of the Defendants, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to enforce and give effect to the provisions of the Settlement Agreement (provided, however, that Defendants may refer to it to effectuate the release and liability protection granted them hereunder);

(d) construed against the Defendants as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial; or

(e) construed as or received in evidence as an admission, concession or presumption against the Plaintiff or any of the Ontario National Class Members that any of their claims are without merit, or that any defences asserted by the Defendants have any merit, or that damages recoverable under the Statement of Claim as amended would not have exceeded the amounts set forth under the Settlement Agreement.

11. THIS COURT ORDERS that the Plan of Allocation is approved as fair and reasonable.

12. THIS COURT ORDERS that Ontario National Class Counsel Fees in the amount of $_____ in cash, and _____ shares, which includes $_____ for disbursements, and which amounts this Court finds to be fair and reasonable, are hereby approved.

13. THIS COURT ORDERS that the Ontario National Class Counsel Fees shall be paid out of the Gross Settlement Fund.

14. THIS COURT ORDERS that this Court shall retain jurisdiction over the parties herein, the Ontario National Class Members, the Claims Administrator and the Escrow Agent for all matters relating to the Ontario National Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order, and including any application for fees and expenses by the Ontario National Class Counsel and the Claims Administrator incurred in overseeing and administering the Settlement, in distributing settlement proceeds to the Ontario National Class Members, and in complying with the terms of this Order and the Certification Order.

15. THIS COURT ORDERS that, on notice to the Court but without further order of the Court, the parties to the Settlement Agreement may agree to reasonable extensions of time to carry out any of the provisions of the Settlement Agreement.

16. THIS COURT ORDERS AND DECLARES that the Released Parties have no responsibility for and no liability whatsoever with respect to the administration of the Settlement.

17. THIS COURT RECOGNIZES & ACKNOWLEDGES that: (i) one of the effects of its determination that the Settlement Agreement is fair is that, pursuant to Section 3(a)(10) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), the Gross Settlement

Shares may be distributed to Class Members, and to counsel for the plaintiffs in the Nortel I Actions as may be awarded by the respective Courts for counsel fees, without registration and compliance with the prospectus delivery requirements of U.S. securities laws; and (ii) Nortel will rely on such Section 3(a)(10) exemption (and Nortel will not register the Gross Settlement Shares under the United States *Securities Act of 1933*) based on this Court' s approval of the fairness of the Settlement.

18. THIS COURT DECLARES that all of the Ontario National Class Members to whom it is proposed to issue Gross Settlement Shares have had the right to appear at the hearing on the fairness of the Settlement Agreement, and that adequate notice of this hearing has been provided to Ontario National Class Members in accordance with the terms of the Certification Order.

19. THIS COURT ORDERS that if (a) the Settlement Agreement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Lead Plaintiffs or Nortel elect(s) to terminate the Settlement Agreement as provided in paragraph 25 of the Stipulation; or (c) the Settlement Agreement is otherwise terminated pursuant to paragraph 27 of the Stipulation, then, in any such event:

(a) this Order (except for paragraphs 1, 10, 14, 16, 17, 18 and 19 herein) shall be set aside, be of no further force or effect, and be without prejudice to any party;

(b) the Certification Order (except for paragraph 24), shall be set aside and be of no further force or effect, and without prejudice to any party;

(c) the Ontario National Action shall be immediately decertified as a class proceeding pursuant to Section 10 of the *Class Proceedings Act, 1992*, without prejudice to the Plaintiff' s ability to reapply for certification; and

(d) each party to the Ontario National Action shall be restored to his, her or its respective position as it existed immediately prior to the execution of the Settlement Agreement.

20. THIS COURT ORDERS AND ADJUDGES that any appeal or challenge affecting the approval of the Plan of Allocation or this Court' s approval of Ontario National Counsel Fees shall in no way disturb or affect the balance of this Order and shall be deemed to be separate and apart from the balance of this Order.

21. THIS COURT ORDERS AND ADJUDGES that, upon the Effective Date, the Ontario National Action be and is hereby dismissed against the Defendants with prejudice and without costs.

PETER GALLARDI Plaintiff	and	NORTEL NETWORKS CORPORATION et al. Defendants	Court File No: 05-CV-285606CP

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

ORDER

EXHIBIT G

CANADA (CLASS ACTION)

PROVINCE OF QUÉBEC
DISTRICT OF MONTREAL

SUPERIOR COURT

NO : 500-06-000277-059

CLIFFORD W. SKARSTEDT

Representative

- v. -

CORPORATION NORTEL NETWORKS

Defendant

and

FONDS D' AIDE AUX RECOURS

COLLECTIFS

Mis en cause

ORDER

THIS MOTION made by the Representative for an Order approving the Settlement Agreement and Confirmation of Stipulation of Agreement of Settlement (the "Settlement Agreement") entered into between the Plaintiffs and the Defendant, Nortel Networks Corporation, approving Quebec Class Counsel Fees and for declaratory relief, was heard this day.

ON READING the materials filed, including the Settlement Agreement attached to this Order as Schedule "A", and on hearing the submissions of counsel for the Representative and counsel for the Defendant:

1. THIS COURT DECLARES that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**Authorization Order**" means the Order authorizing the bringing of the class action for the purpose of settlement dated June ___, 2006;

(b) "**Canadian Actions**" means the **Ontario National Action, the British Columbia Action and the Quebec Action**;

(c) "**Claims Administrator**" means The Garden City Group, Inc.;

(d) "**Class Members**" means members of the Ontario National Class, the Quebec Class and the U.S. Global Class;

(e) "**Class Period**" means the period of time between April 24, 2003 through April 27, 2004, inclusive;

(f) "**Courts**" means this Court, the Ontario Supreme Court of Justice and the United States Federal District Court for the Southern District of New York;

(g) "**Defendant**" means Corporation Nortel Networks;

(h) "**Derivative Application**" application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties**;

(i) "**Effective Date**" means the date upon which the **Settlement** contemplated by the **Settlement Agreement** shall become effective, as provided in paragraph 24 of the Stipulation;

(j) "**Escrow Agent**" has the meaning set forth in the **Stipulation**;

(k) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(l) "**Gross Settlement Fund**" has the meaning set forth in the **Stipulation**;

(m) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(n) "**Individuals**" means Frank A. Dunn, Douglas Beatty, Michael Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, Sherwood Hubbard Smith, Jr., James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for

Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia);

(o) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(p) "**Nortel I Actions**" means the following proceedings in Canada and the U.S.:

(i) *Frohlinger v. Nortel Networks Corporation et al.*, Ontario Superior Court of Justice, Court File No. 02-CL-4605;

(ii) *Association de Protection des Épargnants et Investisseurs du Québec v. Corporation Nortel Networks*, Superior Court of Quebec, District of Montreal, No. 500-06-000126-017;

(iii) *Jeffery et al. v. Nortel Networks Corporation et al.*, Supreme Court of British Columbia, Vancouver Registry Court File No. S015159; and

(iv) *In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 2001-CV-1855 (RMB);

(q) "**Nortel II Actions**" means the **Ontario National Action**, the **Quebec Action** and the **U.S. Action**;

(r) "**Nortel H Defendants**" Nortel, Frank A. Dunn, Douglas Beatty, Michael Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, Sherwood Hubbard Smith, Jr. and Deloitte & Touche LLP;

(s) "**Ontario National Action**" means the proceeding in the Ontario Superior Court of Justice, *Gallardi v. Nortel Networks Corporation et al.*, Court File No. 05-CV-285606CP;

(t) "**Ontario National Class**" means all persons, except **Excluded Persons** and except members of the **Quebec Class**, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(u) "**Other Actions**" means actions or proceedings, other than the **Proceedings**, relating to **Settled Claims** commenced by a **Quebec Class Member** against one or more **Released Parties**;

(v) "**Plan of Allocation**" means the plan of allocation set forth Notice of Certification in Canada and Proposed Settlements of Class Actions, Motion for Attorneys' Fees and Settlement Fairness Hearings and attached as Schedule "B" to this Order;

(w) "**Proceedings**" means the **Ontario National Action**, the **Quebec Action**, the **U.S. Action** and the **Nortel I Actions**;

(x) "**Quebec Action**" means this proceeding;

(y) "**Quebec Class**" means all persons and entities, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) Nortel put options on Nortel common stock during the **Class Period**. For purposes of the definition of **Quebec Class**, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm' s length with the representative of the **Quebec Class**;

(z) "**Quebec Class Counsel**" means Trudel & Johnston;

(aa) "**Quebec Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Quebec Class Counsel**;

(bb) "**Quebec Class Member**" means a member of the **Quebec Class** who has not opted out of, or requested exclusion from, the **Quebec Class** in accordance with the **Authorization Order**;

(cc) "**Released Parties**" means any and all of the **Nortel II Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel II Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel II Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel II Defendants**;

(dd) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Canadian Actions** and the **U.S. Action**;

(ee) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and unknown

claims, (i) that have been asserted in any of the **Nortel II Actions** against any of the Released Parties, or (ii) that could have been asserted in any forum by the Class Members in the **Nortel II Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel II Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel II Actions**. **Settled Claims** does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, *et seq.* ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. **Settled Claims** also does not include: (a) the action in *Rohac et al. v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV- 3268; and (b) the **Derivative Application**;

(ff) "**Settled Defendants' Claim**" means any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, provincial, local, statutory or common law or any other law, rule or regulation, including both known claims and unknown claims, that have been or could have been asserted in the **Nortel II Actions** or any forum by the **Nortel II Defendants** or any of them or the successors and assigns or any of them against the **Representative Plaintiffs**, any **Class Member**, or their counsel, and that arise out of or relate in any way to the institution, prosecution, or settlement of the **Nortel II Actions** (except for claims or proceedings to enforce the **Settlement** including, without limitation, any of the terms of the **Stipulation** or orders or judgments issued by the **Courts** in connection with the **Settlement**, confidentiality obligations or in respect of the **Derivative Application**);

(gg) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached as Schedule "A" thereto, entered into between the Plaintiffs and Nortel, through their counsel, dated as of June ___, 2006, attached to this Order as Schedule "A";

(hh) "**Settlement**" means the proposed settlement of the **Nortel II Actions** pursuant to the terms set forth in the **Stipulation**;

(ii) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the **Settlement Agreement** as Schedule "A";

(jj) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the Class;

(kk) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** and any **Settled Defendants**' **Claims** which any **Nortel II Defendant** does not know or suspect to exist in his, her or its favour, which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(ll) "**U.S. Action**" means the proceeding in the United States Federal District Court for the Southern District of New York, *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP); and

(mm) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange,

2. THIS COURT DECLARES that the Settlement Agreement is fair, reasonable and in the best interests of the Quebec Class.

3. THIS COURT ORDERS that the Settlement Agreement attached to this Order as Schedule "A" is hereby approved pursuant to Article 1025 of the *Code of Civil Procedure*.

4. THIS COURT DECLARES that the Settlement Agreement is binding upon the Representative, upon all Quebec Class Members, and upon the Defendant, including those persons who are minors or mentally incapable.

5. THIS COURT ORDERS that, upon the Effective Date, the Representative herein and each of the Quebec Class Members, on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns, are hereby permanently barred

and enjoined from instituting, commencing or prosecuting any Settled Claims against the Released Parties.

6. THIS COURT ORDERS AND DECLARES that, upon the Effective Date, the Representative herein and each of the Quebec Class Members, on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns shall release and shall be conclusively deemed to have fully, finally and forever released the Released Parties from the Settled Claims.

7. THIS COURT ORDERS that, upon the Effective Date, the Plaintiff herein and each of the Quebec Class Members and their respective personal representatives, heirs, executors, administrators, trustees, successors and assigns, shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit, cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date, and are enjoined from doing so.

8. THIS COURT ORDERS that, upon the Effective Date, the Defendant Nortel, on behalf of itself and its personal representatives, heirs, executors, administrators, trustees, successors and assigns is hereby permanently barred and enjoined from prosecuting a Settled Defendants' Claim against the Representative herein, the Quebec Class Members or Quebec Class Counsel. In the event that any of the Released Parties assert against the Representative, any Quebec Class Member or the Quebec Class Counsel, any claim that is a Settled Defendants' Claim, then the

Representative, such Class Member or Quebec Class Counsel, as the case may be, shall be entitled to use and assert such factual matters included within the Settled Claims only against such Released Party in defence of such claim but not for the purpose of asserting any claim against any Released Party.

9. THIS COURT ORDERS AND DECLARES that each Quebec Class Member shall consent and shall be deemed to have consented to the dismissal of any Other Actions he, she or it has commenced against the Released Parties, without costs and with prejudice.

10. THIS COURT ORDERS that neither this Order, the Settlement Agreement, the Stipulation, nor any of their terms and provisions, nor any of the negotiations or proceedings connected with it, nor any of the documents or statements referred to therein shall be:

(a) offered or received against the Defendant as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by the Defendant with respect to the truth of any fact alleged in the Quebec Action or the validity of any claim that has been or could have been asserted in the Quebec Action or in any litigation, or the deficiency of any defence that has been or could have been asserted in the Quebec Action or in any litigation, or of any liability, negligence, fault, or wrongdoing of the Defendant;

(b) offered or received against the Defendant as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by the Defendant;

(c) offered or received against the Defendant as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against the Defendant, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to enforce and give effect to the provisions of the Settlement Agreement (provided, however, that Defendant may refer to it to effectuate the release and liability protection granted them hereunder);

(d) construed against the Defendant as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial; or

(e) construed as or received in evidence as an admission, concession or presumption against the Representative or any of the Quebec Class Members that any of their claims are without merit, or that any defences asserted by the Defendant have any merit, or that damages recoverable under the Quebec Action would not have exceeded the amounts set forth under the Settlement Agreement.

11. THIS COURT ORDERS that the Plan of Allocation is approved as fair and reasonable.

12. THIS COURT ORDERS that Quebec Class Counsel Fees in the amount of $_____ in cash, and _____ shares, which includes $_____ for disbursements, and which amounts this Court finds to be fair and reasonable, are hereby approved.

13. THIS COURT ORDERS that the Quebec Class Counsel Fees shall be paid out of the Gross Settlement Fund.

14. THIS COURT ORDERS that this Court shall retain jurisdiction over the parties herein, the Quebec Class Members, the Claims Administrator and the Escrow Agent for all matters relating to the Quebec Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order, and including any application for fees and expenses by the Quebec Class Counsel and the Claims Administrator incurred in overseeing and administering the Settlement, in distributing settlement proceeds to the Quebec Class Members, and in complying with the terms of this Order and the Authorization Order.

15. THIS COURT ORDERS that, on notice to the Court but without further order of the Court, the parties to the Settlement Agreement may agree to reasonable extensions of time to carry out any of the provisions of the Settlement Agreement.

16. THIS COURT ORDERS AND DECLARES that the Released Parties have no responsibility for and no liability whatsoever with respect to the administration of the Settlement.

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17. THIS COURT RECOGNIZES & ACKNOWLEDGES that: (i) one of the effects of its determination that the Settlement Agreement is fair is that, pursuant to Section 3(a)(10) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), the Gross Settlement Shares may be distributed to Class Members, and to counsel for the plaintiffs in the Nortel I Actions as may be awarded by the respective Courts for counsel fees, without registration and compliance with the prospectus delivery requirements of U.S. securities laws; and (ii) Nortel will rely on such Section 3(a)(10) exemption (and Nortel will not register the Gross Settlement Shares under the *United States Securities Act of 1933*) based on this Court' s approval of the fairness of the Settlement.

18. THIS COURT DECLARES that all Quebec Class Members to whom it is proposed the Settlement Agreement, and that adequate notice of this hearing has been provided to Quebec Class Members in accordance with the terms of the Authorization Order.

19. THIS COURT ORDERS that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 of the Stipulation; or (c) the Settlement Agreement is otherwise terminated pursuant to paragraph 27 of the Stipulation, then, in any such event:

(a) this Order (except for paragraphs 1, 10, 14, 16, 17, 18 and 19 herein) shall be set aside, be of no further force or effect, and be without prejudice to any party;

(b) the Authorization Order (except for paragraph 24), shall be set aside, of no further force or effect, and without prejudice to any party;

(c) the judgment authorizing the bringing of the class action shall be annulled pursuant to the *Code of Civil Procedure*; and

(d) each party to the Quebec Action shall be restored to his, her or its respective position as it existed immediately prior to the execution of the Settlement Agreement.

20. THIS COURT ORDERS AND ADJUDGES that any appeal or challenge, to the extent any such right exists, affecting the approval of the Plan of Allocation or this Court' s approval of Quebec Counsel Fees shall in no way disturb or affect the balance of this Order and shall be deemed to be separate and apart from the balance of this Order.

21. THIS COURT ORDERS AND ADJUDGES that, upon the Effective Date, the Quebec Action be and is hereby dismissed against the Defendant with prejudice and without costs.

Date J.C.S.

EXHIBIT 10.12

Court File No. 02-CL-4605

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE SENIOR REGIONAL	)	TUESDAY, THE 27 DAY
	)	
JUSTICE WINKLER	)	OF JUNE, 2006

BETWEEN

LESLIE FROHLINGER

Plaintiff

- and-

NORTEL NETWORKS CORPORATION, JOHN ANDREW ROTH, FRANK DUNN, F. WILLIAM CONNER, CHAHRAM BOLOURI, WILLIAM R. HAWE and DELOITTE & TOUCHE LLP

Defendants

Proceedings under the *Class Proceeding Act*, 1992

ORDER

THIS MOTION made by the Plaintiff for an Order certifying this action as a class proceeding for the purpose of settlement, approving the notice to class members and other declaratory relief was heard this day at the Court House, 361 University Avenue, Toronto, Ontario.

ON READING the materials filed, including the Settlement Agreement (defined herein), and on hearing the submissions of counsel for the Plaintiff and counsel for the Defendants:

1. **THIS COURT ORDERS AND DECLARES** that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**British Columbia Action**" means the proceeding in the Supreme Court of British Columbia, *Jeffery et al* v. *Nortel Networks Corporation et al*., Court File No. S0151590, Vancouver Registry;

(b) "**British Columbia Class**" means all persons and entities, except **Excluded Persons** who, while resident in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period;

(c) "**British Columbia Court**" means the Supreme Court of British Columbia;

(d) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 11 to administer the **Settlement**;

(e) "**Class Members**" means members of the British Columbia Class, the Ontario National Class, the Quebec Class and the U.S. Global Class;

(f) "**Class Period**" means the period of time between October 24, 2000 through February 15, 2001, inclusive;

(g) "**Courts**" means the **Ontario Court**, the **British Columbia Court**, the **Quebec Court** and the **U.S. Court**;

(h) "**Defendants**" means the persons and entities named as defendants in the **Ontario National Action**;

(i) "**Escrow Agents**" has the meaning set forth in the **Stipulation**;

(j) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(k) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(l) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(m) "**Individuals**" means Clarence Chandran, Frank Dunn and John Andrew Roth;

(n) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(o) "**Nortel I Actions**" means the **Ontario National Action**, the **Quebec Action**, the **British Columbia Action** and the **U.S. Action**;

(p) "**Nortel I Defendants**" means the Defendants and Clarence Chandran;

(q) "**Notice**" means the notice to the classes in the **Nortel I Actions** substantially in the form attached as Schedule "B" to this Order;

(r) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice, Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "D" to this Order;

(s) "**Ontario National Action**" means this proceeding which raises claims in the nature of negligence, negligent and/or reckless misrepresentation, and alleges breaches of the *Canada Business Corporations Act*, *Competition Act* and *Ontario Securities Act*, for which relief is sought through an award of damages;

(t) "**Ontario National Class**" means the class certified for the purpose of settlement in the **Ontario National Action** pursuant to paragraph 3 of this Order;

(u) "**Ontario National Class Counsel**" means Rochon Genova LLP and Lerners LLP;

(v) "**Ontario National Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Ontario National Class Counsel**;

(w) "**Ontario National Class Member**" means a member of the **Ontario National Class** who does not opt out of the **Ontario National Class** in the manner set forth in this Order;

(x) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order;

(y) "**Publication Notice**" means the summary notice of certification and proposed settlement, and of the hearing of the **Settlement Approval Motion**, substantially in the form attached as Schedule "E" to this Order;

(z) "**Quebec Action**" means the proceeding in the Superior Court of Quebec (District of Montreal), *Association de Protection des Epargnants et Investisseurs du Québec* v. *Corporation Nortel Networks*, No: 500-06-000126017;

(aa) "**Quebec Class**" means all persons, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(bb) "**Quebec Court**" means the Superior Court of Quebec;

(cc) "**Released Parties**" means any and all of the **Nortel I Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants,

administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel I Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel I Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel I Defendants**;

(dd) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Nortel I Actions**;

(ee) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel I Actions** against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel I Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel I Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel I Actions**. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, et seq. ("*ERISA*") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include: (a) the action in *Rohac et al* v. *Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund* v. *Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties**;

(ff) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the Stipulation attached thereto, entered into between the Plaintiff herein and Nortel, through their counsel dated June 20, 2006, which is attached to this Order as Schedule "A";

(gg) "**Settlement**" means the proposed settlement of the **Nortel I Actions** pursuant to the terms set forth in the Settlement Agreement adopting and ratifying the **Stipulation**;

(hh) "**Settlement Approval Motion**" means the motion for final approval of the **Settlement** by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(ii) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the **Settlement Agreement** as Schedule "A";

(jj) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(kk) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties**, which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(ll) "**U.S. Action**" means the proceeding in the U.S. Federal District Court for the Southern District of New York, Consolidated Civil Action No. 2001-CV-1855 (RMB), certified by that Court as a class action on September 5, 2003;

(mm) "**U.S. Court**" means the U.S. Federal District Court for the Southern District of New York;

(nn) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from this class are any putative class members who previously requested exclusion in response to a notice dated March 10, 2004 that was mailed to members of this class beginning on April 12, 2004 notifying them of the pendency of the **U.S. Action**.

2. **THIS COURT ORDERS** that the Ontario National Action be certified as a class proceeding for the purpose of settlement.

3. **THIS COURT ORDERS** that the Ontario National Class be defined as:

> All persons and entities, except Excluded Persons and members of the British Columbia Class and the Quebec Class, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period.

4. **THIS COURT ORDERS** that Leslie Frohlinger be and is hereby appointed as the representative plaintiff for the Ontario National Class.

5. **THIS COURT ORDERS** that the Ontario National Action is certified as a class proceeding for the purpose of settlement on the basis of the following common issue:

> Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings guidance during the Class Period?

6. **THIS COURT ORDERS** that the Settlement Approval Motion and the motion by Ontario National Class Counsel for approval of Ontario National Class Counsel Fees shall be heard by this Court on a date to be set by the Registrar, approximately 90 days from the date set herein for the mailing of the notice, at the Court House at 361 University Avenue, Toronto, Ontario.

7. **THIS COURT ORDERS** that each potential member of the Ontario National Class who elects to opt out of the Ontario National Class must do so by writing a letter, signed by such person, clearly requesting exclusion and indicating the name, address and telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common stock or call options on Nortel common stock and of all put options of Nortel common stock written (sold) during the Class Period, and sending it by first class mail post marked no later than 60 days after the date set herein for mailing of the notice, to the address indicated in the Notice.

8. **THIS COURT ORDERS** that any potential member of the Ontario National Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any future Orders in the Ontario National Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in each of the Nortel I Actions.

9. **THIS COURT ORDERS** that potential members of the Ontario National Class who, prior to the date of this Order, opted out of, or requested exclusion from, the U.S. Action will be members of the Ontario National Class and shall be bound by any future Orders in the Ontario National Action and by the terms of the Settlement, unless they opt out of the Ontario National Class in accordance with paragraph 7 of this Order.

10. **THIS COURT ORDERS** that any potential member of the Ontario National Class who opts out of the Ontario National Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel I Actions, shall not be entitled to file a Proof of Claim as provided in paragraph 20 of this Order, shall not be entitled to receive any payment out of the Settlement and shall not be entitled to object to the approval of the Settlement as provided in paragraph 22 of this Order.

11. **THIS COURT ORDERS** that The Garden City Group, Inc is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the Ontario National Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

12. THIS COURT ORDERS that the Escrow Agents, acting in their capacity as escrow agents, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

13. **THIS COURT ORDERS** that the form and content of the Notice, substantially in the form attached hereto as Schedule “B”, is hereby approved.

14. **THIS COURT ORDERS** that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

15. **THIS COURT ORDERS** that the plan of dissemination of the Notice substantially in the manner described in the Notice Plan attached to this Order as Schedule "D" is hereby approved.

16. **THIS COURT ORDERS** that upon approval of the Notice and the Proof of Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, on or before 14 days after entry of the last order by any of the Courts in the Nortel I Actions and the Nortel II Actions (as defined in the Stipulation) approving the notice applicable to that proceeding, to all members of the Ontario National Class who can be identified with reasonable effort, in accordance with the Notice Plan.

17. **THIS COURT ORDERS** that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

18. **THIS COURT ORDERS** that Ontario National Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

19. **THIS COURT ORDERS** that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved, and directs that Claims

Administrator shall cause the Publication Notice to be published in accordance with the Notice Plan, which publication shall begin within ten (10) days of the mailing of the Notice, and Ontario National Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

20. **THIS COURT ORDERS** that in order to be entitled to participate in the Net Settlement Fund (as defined in the Stipulation), each Ontario National Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than 120 days after the date set herein for the mailing of the notice. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund (as defined in the Stipulation).

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

21. **THIS COURT ORDERS** that the Proof of Claim submitted by each Ontario National Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Ontario National Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

22. **THIS COURT ORDERS** that, as part of the Proof of Claim, each Ontario National Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts) release all Settled Claims against the Released Parties.

23. **THIS COURT ORDERS** that Ontario National Class Members who wish to file with the Court an objection or comment to the Settlement or to the approval of Ontario National Class Counsel Fees shall deliver a written submission to the Claims Administrator at the address indicated in the Notice, no later than 60 days after the date set herein for the mailing of the notice, and the Claims Administrator shall file all such submissions with the Court prior to the hearing of the Settlement Approval Motion.

24. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) is terminated pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the certification of the action as a class proceeding for the purpose of settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the Ontario National Action shall be restored to his, her or its respective position in the litigation as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this Action shall be decertified as a class proceeding pursuant to Section 10 of the Class Proceedings Act, 1992, without prejudice to the Plaintiff` s ability to reapply for certification.

25. **THIS COURT ACKNOWLEDGES** having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon by Nortel for an exemption, pursuant to Section 3(a)(10) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), to enable the Gross Settlement Shares to be distributed to Class Members, and to counsel for the Representative Plaintiffs as may be awarded by the respective Courts, without registration and compliance with the prospectus delivery requirements of U.S. securities laws.

26. **THIS COURT DECLARES** that Schedule "A" hereto satisfies the requirements of subsections 8(1)(c) and (d) of the *Class Proceedings Act, 1992*.

/s/ Winkler

entered at/inscrit a toronto
on/book no:
Le/dans le registre no.:

jul 07 2006

per/par:

Tara Stead
Registrar, Superior Court of Justice

LESLIE FROHLINGER and Plaintiff	NORTEL NETWORKS CORPORATION et al Defendants	Court File No: 02-CL-4605

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

O R D E R

EXHIBIT 10.13

CANADA

(CLASS ACTION)

PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

SUPERIOR COURT

PRESIDING: THE HONOURABLE MADAM JUSTICE MICHELE MONAST, JSC

NO.: 500-06-000126-017

ASSOCIATION DE PROTECTION DES EPARGNANTS ET INVESTISSEURS DU QUEBEC (A.P.E.I.Q.)

Petitioner

and

ANDRE DUSSAULT

Designated person

v.

CORPORATION NORTEL NETWORKS

Respondent

and

FONDS D' AIDE AUX RECOURS COLLECTIFS

Mis en cause

ORDER

THIS MOTION made by the Petitioner for a Judgment authorizing the bringing of the class action for the purpose of settlement pursuant to the Stipulation and Agreement of Settlement (the "Settlement Agreement") entered into between the Petitioner and the Respondent was heard this day.

ON READING the materials filed, including the Settlement Agreement (defined herein), and on hearing the submissions of counsel for the Petitioner and counsel for the Respondent:

1. THIS COURT ORDERS AND DECLARES that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**British Columbia Action**" means the proceeding in the Supreme Court of British Columbia, *Jeffery et al. v. Nortel Networks Corporation et al.*, Court File No. 50151590, Vancouver Registry;

(b) "**British Columbia Class**" means all persons and entities, except **Excluded Persons** who, while resident in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(c) "**British Columbia Court**" means the Supreme Court of British Columbia;

(d) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 11 to administer the **Settlement**;

(e) "**Class Members**" means members of the British Columbia Class, the Ontario National Class, the Quebec Class and the U.S. Global Class;

(f) "**Class Period**" means the period of time between October 24, 2000 through February 15, 2001, inclusive;

(g) "**Courts**" means the **Ontario Court**, the **British Columbia Court**, the **Quebec Court** and the **U.S. Court**;

(h) "**Defendant**" means the Respondent, Corporation Nortel Networks;

(i) "**Escrow Agents**" has the meaning set forth in the **Stipulation**;

(j) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals'** immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(k) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(l) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(m) "**Individuals**" means Clarence Chandran, Frank Dunn and John Andrew Roth;

(n) "**Nortel**" means the Respondent, Corporation Nortel Networks;

(o) "**Nortel I Actions**" means the Ontario National Action, the Quebec Action, the British Columbia Action and the U.S. Action;

(p) "**Nortel I Defendants**" means the Defendant and Clarence Chandran;

(q) "**Notice**" means the global notice to the classes in the **Nortel I Actions** substantially in the form attached as Schedule "B" to this Order, as approved in paragraph 13 of this Order;

(r) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice**, **Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "D" to this Order;

(s) "**Ontario Court**" means the Ontario Superior Court of Justice;

(t) "**Ontario National Action**" means the proceeding in the Ontario Superior Court of Justice, *Frohlinger v. Nortel Networks Corporation et al.*, Court File No. 02-CL-4605;

(u) "**Ontario National Class**" means all persons and entities, except **Excluded Persons** and except members of the **British Columbia Class** and the **Quebec Class**, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period;

(v) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order, as approved in paragraph 14 of this Order;

(w) "Publication Notice" means the summary notice of certification and proposed settlement, and of the hearing of the Settlement Approval Motion, substantially in the form attached as Schedule "E" to this Order (or a French version thereof in the case of the French magazines and newspapers contemplated by the Notice Plan), as approved in paragraph 19 of this Order;

(x) "**Quebec Action**" means this proceeding;

(y) "**Quebec Class**" means all persons, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(z) "**Quebec Class Counsel**" means Belleau Lapointe, S.A., and Unterberg, Labelle, Lebeau S.E.N.C.;

(aa) "**Quebec Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Quebec Class Counsel**;

(bb) "**Quebec Class Member**" means a member of the **Quebec Class** who does not opt out of the **Quebec Class** in the manner set forth in this Order;

(cc) "**Quebec Court**" means the Superior Court of Quebec;

(dd) "**Released Parties**" means any and all of the **Nortel I Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, attorneys, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel I Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel I Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel I Defendants**;

(ee) "**Representative Plaintiffs**" means, collectively, the representative or Iead plaintiffs in each of the **Nortel I Actions**;

(ff) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel I Actions** against any of the Released Parties, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel I Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel I Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the Class Period or (iii) any oppression or other claims under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel I Actions. Settled Claims** does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act of 1974*, as amended, 29 U.S.C. § 1001, et seq. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks' Securities and 'ERISA' Litigation*, MDL Docket No. 1537. **Settled Claims** further does not include: (a) the action in *Rohac et al v. Nortel Networks' et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the application brought in

Indiana Electrical Workers Pension Trust Fund MEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties** and others;

(gg) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached thereto, entered into between the Petitioner herein and Nortel, through their counsel dated June 20, 2006, which is attached to this Order as Schedule "A";

(hh) "**Settlement**" means the proposed settlement of the **Nortel I Actions** pursuant to the terms set forth in the **Settlement Agreement** adopting and ratifying the **Stipulation**;

(ii) "**Settlement Approval Motion**" means the motion for final approval of the **Settlement** by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(jj) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the Settlement Agreement as Schedule "A";

(kk) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the Class;

(ll) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties**, which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(mm) "**U.S. Action**" means the proceeding in the U.S. Federal District Court for the Southern District of New York, Consolidated Civil Action No. 2001-CV-1855 (RMB), certified by that Court as a class action on September 5, 2003;

(nn) "**U.S. Court**" means the U.S. Federal District Court for the Southern District of New York; and

(oo) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from this class are any putative class members who previously requested exclusion in

response to a notice dated March 10, 2004 that was mailed to members of this class beginning on April 12, 2004 notifying them of the pendency of the **U.S. Action**.

2. **THIS COURT ORDERS** that the bringing of the Quebec Action as a class action be authorized for the purpose of settlement.

3. **THIS COURT ORDERS** that the Quebec Class be defined as:

> All persons, except Excluded Persons who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period.

4. **THIS COURT ORDERS** that the Association de protection des epargnants et investisseurs du Quebec (A.P.E.I.Q.) and Andre Dussault be and are hereby appointed as the Representatives for the Quebec Class.

5. **THIS COURT ORDERS** that the bringing of the Quebec Action as a class action is authorized for the purpose of settlement only, on the basis of the following common issue:

> Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings guidance during the Class Period?

6. **THIS COURT ORDERS** that the Settlement Approval Motion and the motion by Quebec Class Counsel for approval of Quebec Class Counsel Fees shall be heard by this Court on a date to be set by this Court, approximately 90 days from the date set herein for the mailing of the Notice, at the Montreal Court House, located at 1, Notre-Dame Street East, Montreal, Quebec.

7. **THIS COURT ORDERS** that each potential member of the Quebec Class who elects to opt out of the Quebec Class must do so by writing a letter, signed by such person, requesting exclusion and clearly indicating the name, address and telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common

stock or call options on Nortel common stock and of all put options of Nortel common stock written (sold) during the Class Period, and sending it by first class mail post marked no later than 60 days from the date set herein for the mailing of the Notice, to the address indicated in the Notice.

8. **THIS COURT ORDERS** that any potential member of the Quebec Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any future Orders in the Quebec Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in each of the Nortel I Actions.

9. **THIS COURT ORDERS** that potential members of the Quebec Class who, prior to the date of this Order, opted out of, or requested exclusion from, the U.S. Action will be members of the Quebec Class and shall be bound by any future Orders in the Quebec Action and by the terms of the Settlement, unless they opt out of the Quebec Class in accordance with paragraph 7 of this Order.

10. **THIS COURT ORDERS** that any potential member of the Quebec Class who opts out of the Quebec Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel 1 Actions , shall not be entitled to file a Proof of Claim as provided in paragraph 20 of this Order, shall not be entitled to receive any payment out of the Settlement and shall not be entitled to object to the approval of the Settlement as provided in paragraph 22 of this Order.

11. **THIS COURT ORDERS** that The Garden City Group, Inc. is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the Quebec Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

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12. **THIS COURT ORDERS** that the Escrow Agents, acting in their capacity as escrow agents, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

13. **THIS COURT ORDERS** that the form and content of the Notice, substantially in the form attached hereto as Schedule "B", is hereby approved.

14. **THIS COURT ORDERS** that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

15. **THIS COURT ORDERS** that the plan of dissemination of the Notice substantially in the manner described in the Notice Plan attached to this Order as Schedule "D", is hereby approved.

16. **THIS COURT ORDERS** that upon approval of the Notice and the Proof of Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, no later than 14 days after entry of the last order by any order of the Courts in the Nortel I Actions and the Nortel II Actions (as defined in the Stipulation) approving the Notice applicable to that proceeding, to all of the Quebec Class Members who can be identified with reasonable effort, in accordance with the Notice Plan.

17. **THIS COURT ORDERS** that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

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18. **THIS COURT ORDERS** that Quebec Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

19. **THIS COURT ORDERS** that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved, and directs that Claims Administrator shall cause the Publication Notice to be published in accordance with the Notice Plan, which publication shall begin within ten (10) days of the mailing of the Notice, and Quebec Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

20. THIS COURT ORDERS that in order to be entitled to participate in the Net Settlement Fund (as defined in the Stipulation), each Quebec Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than 120 clays after the date set herein for the mailing of the Notice. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund (as defined in the Stipulation).

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

21. **THIS COURT ORDERS** that the Proof of Claim submitted by each Quebec Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker

account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Quebec Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

22. **THIS COURT ORDERS** that, as part of the Proof of Claim, each Quebec Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts) release all Settled Claims against the Released Parties.

23. **THIS COURT ORDERS** that Quebec Class Members who wish to file with the Court an objection or comment to the Settlement or to the approval of Quebec Class Counsel Fees shall deliver a written submission to the Claims Administrator at the address indicated in the Notice, no later than 60 days after the date set herein for the mailing of the Notice, and the Claims Administrator shall file all such submissions with the Court prior to the hearing of the Settlement Approval Motion.

24. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) is terminated pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the authorization of the bringing of the Quebec Action as a class action for the purpose of settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the Quebec Action shall be restored to his, her or its respective position in the litigation

as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this Action authorizing the bringing of the class action shall be annulled pursuant to the *Code of Civil Procedure*, without prejudice to the Petitioner' s ability to reapply for certification.

25. **THIS COURT ACKNOWLEDGES** having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon by Nortel for an exemption, pursuant to Section 3(a)(10) of the United States Securities Act of 1933, as amended, 15 U.S.C. § 77c(a)(l), to enable the Gross Settlement Shares to be distributed to Class Members, and to counsel for the Representative Plaintiffs as may be awarded by the respective Courts, without registration and compliance with the prospectus delivery requirements of U.S. securities laws.

27 Juin 2006	/s/ Michèle Monast
Date	J.S.C.

EXHIBIT 10.14

No. S015159
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN:

JANIE JEFFERY and RONALD MENSING

Plaintiffs

AND:

NORTEL NETWORKS CORPORATION, JOHN A. ROTH, FRANK A. DUNN, F. WILLIAM CONNOR and CHAHRAM BOLOURI

Defendants

Brought under the *Class Proceedings Act*, R.S.B.C. 1996, c.50

ORDER

BEFORE	)	THE HONOURABLE	)	TUESDAY THE 27TH DAY
	)		)	
	)	MR. JUSTICE GROBERMAN	)	OF JUNE 2006

THE APPLICATION of the Plaintiffs for an Order certifying this action as a class proceeding for the purpose of settlement, approving the notice to Class Members, and other declaratory relief coming on for hearing at Vancouver, British Columbia on the 27th day of June 2006, **AND ON HEARING David A. Klein**, counsel for the Plaintiff, **AND ON HEARING Gregory J. Nash**, counsel for the Defendants Nortel Networks Corporation, John A. Roth, F. William Conner and Chahram Bolouri, **AND ON READING** the materials filed, including the Settlement Agreement (defined herein).

1. **THIS COURT ORDERS AND DECLARES** that for the purposes of this Order the following definitions apply and are incorporated into this Order:

   (a) "**British Columbia Action**" means this proceeding;

   (b) "**British Columbia Class**" means the class certified for the purpose of settlement in the **British Columbia Action** pursuant to paragraph 3 of this Order;

   (c) "**British Columbia Class Counsel**" means Klein Lyons.

(d) "**British Columbia Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **British Columbia Class Counsel**;

(e) "**British Columbia Class Member**" means a member of the **British Columbia Class** who does not opt out of the **British Columbia Class** in the manner set forth in this Order;

(f) "**British Columbia Court**" means the Supreme Court of British Columbia;

(g) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 11 to administer the **Settlement**;

(h) "**Class Members**" means members of the British Columbia Class, the Ontario National Class, the Quebec Class and the U.S. Global Class;

(i) "**Class Period**" means the period of time between October 24, 2000 through February 15, 2001, inclusive;

(j) "**Courts**" means the **British Columbia Court**, the **Ontario Court**, the **Quebec Court** and the **U.S. Court**;

(k) "**Defendants**" means Nortel and the persons named as defendants in the **British Columbia Action**;

(l) "**Escrow Agents**" has the meaning set forth in the **Stipulation**;

(m) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(n) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(o) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(p) "**Individuals**" means Clarence Chandran, Frank Dunn and John Andrew Roth;

(q) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(r) "**Nortel I Actions**" means the **Ontario National Action**, the **Quebec Action**, the **British Columbia Action** and the **U.S. Action**;

(s) "**Nortel I Defendants**" means the Defendants and Frank A. Dunn, William R. Hawe, Clarence Chandran, and Deloitte & Touche LLP;

(t) "**Notice**" means the notice to the classes in the **Nortel I Actions** substantially in the form attached as Schedule "B" to this Order;

(u) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice**, **Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "D" to this Order;

(v) "**Ontario Court**" means the Ontario Superior Court of Justice;

(w) "**Ontario National Action**" means the proceeding in the Ontario Superior Court of Justice, *Frohlinger v. Nortel Networks Corporation et al.*, Ontario Court File No. 02-CL-4605;

(x) "**Ontario National Class**" means all persons and entities, except **Excluded Persons** and members of the British Columbia Class and the Quebec Class who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period;

(y) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order;

(z) "**Publication Notice**" means the summary notice of certification and proposed settlement, and of the hearing of the **Settlement Approval Motion**, substantially in the form attached as Schedule "E" to this Order;

(aa) "**Quebec Action**" means the proceeding in the Superior Court of Quebec (District of Montreal), *Association de Protection des Epargnants et Investisseurs du Québec v. Corporation Nortel Networks*, No: 500-06-000126-017;

(bb) "**Quebec Class**" means all persons, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(cc) "**Quebec Court**" means the Superior Court of Quebec;

(dd) "**Released Parties**" means any and all of the **Nortel I Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, attorneys, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel I Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel I**

Defendants, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel I Defendants**;

(ee) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Nortel I Actions**;

(ff) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel I Actions** against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel I Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel I Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel I Actions**. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, *et seq.* ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include (a) the action in *Rohac et al v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) "the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties** and others;

(gg) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached thereto, entered into between the Plaintiffs herein and Nortel, through their counsel, dated June 20, 2006, which is attached to this Order as Schedule "A";

(hh) "**Settlement**" means the proposed settlement of the **Nortel I Actions** pursuant to the terms set forth in the **Stipulation**;

(ii) "**Settlement Approval Motion**" means the motion for final approval of the **Settlement** by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(jj) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the **Settlement Agreement** as Schedule "A";

(kk) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel If potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(ll) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(mm) "**U.S. Action**" means the proceeding in the U.S. Federal District Court for the Southern District of New York, Consolidated Civil Action No. 2001-CV-1855 (RMB), certified by that Court as a class action on September 5, 2003;

(nn) "**U.S. Court**" means the U.S. Federal District Court for the Southern District of New York;

(oo) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange. Excluded from this class are any putative class members who previously requested exclusion in response to a notice dated March 10, 2004 that was mailed to members of this class beginning on April 12, 2004 notifying them of the pendency of the **U.S. Action**.

2. **THIS COURT ORDERS** that the British Columbia Action be certified as a class proceeding for the purpose of settlement.

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3. **THIS COURT ORDERS** that the British Columbia Class be defined as:

   All persons and entities, except Excluded Persons who, while resident in British Columbia at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period.

4. **THIS COURT ORDERS** that Janie Jeffery and Ronald Mensing are appointed as the representative plaintiffs for the British Columbia Class.

5. **THIS COURT ORDERS** that the British Columbia Action is certified as a class proceeding for settlement purposes only, on the basis of the following common issue:

   Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings guidance during the Class Period?.

6. **THIS COURT ORDERS** that the Settlement Approval Motion and the motion by British Columbia Class Counsel for approval of British Columbia Class Counsel Fees shall be heard by this Court on a date to be set by this Court, approximately 90 days from the date set herein for the mailing of the Notice, at the Supreme Court of British Columbia, 800 Smithe Street, Vancouver, British Columbia.

7. **THIS COURT ORDERS** that each potential member of the British Columbia Class who elects to opt out of the British Columbia Class must do so by writing a letter, signed by such person, clearly requesting exclusion and indicating the name, address and telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common stock or call options on Nortel common stock and of all put options of Nortel common stock written (sold) during the Class Period, and

sending it by first class mail post marked no later than 60 days after the date set herein for the mailing of the Notice to the address indicated in the Notice.

8. **THIS COURT ORDERS** that any potential member of the British Columbia Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any future Orders in the British Columbia Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in the Nortel I Actions.

9. **THIS COURT ORDERS** that potential members of the British Columbia Class who, prior to the date of this Order, opted out of, or requested exclusion from, the U.S. Action will be members of the British Columbia Class and shall be bound by any future Orders in the British Columbia Action and by the terms of the Settlement, unless they opt out of the British Columbia Class in accordance with paragraph 7 of this Order.

10. **THIS COURT ORDERS** that any potential member of the British Columbia Class who opts out of the British Columbia Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel I Actions, shall not be entitled to file a Proof of Claim as provided in paragraph 21 of this Order, shall not be entitled to receive any payment out of the Settlement, and shall not be entitled to object to the approval of the Settlement as provided in paragraph 23 of this Order.

11. **THIS COURT ORDERS** that The Garden City Group, Inc. is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the British Columbia Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

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12. **THIS COURT ORDERS** that the Escrow Agents, acting in their capacity as escrow agents, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

13. **THIS COURT ORDERS** that the form and content of the Notice, substantially in the form attached hereto as Schedule "B", is hereby approved.

14. **THIS COURT ORDERS** that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

15. **THIS COURT ORDERS** that the plan of dissemination of the Notice substantially in the manner described in the Notice Plan attached to this Order as Schedule "D", is hereby approved.

16. **THIS COURT ORDERS** that upon approval of the Notice and the Proof of Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, no later than 14 days after entry of the last order by any order of the Courts in the Nortel I Actions and the Nortell II Actions (as defined in the Stipulation) approving the Notice applicable to that proceeding, to all members of the British Columbia Class who can be identified with reasonable effort, in accordance with the Notice Plan.

17. **THIS COURT ORDERS** that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners,

and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

18. **THIS COURT ORDERS** that British Columbia Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

19. **THIS COURT ORDERS** that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved and directs that the Claims Administrator shall cause the Publication Notice to be published in accordance with the Notice Plan, which publication shall begin within ten (10) days of the mailing of the Notice, and British Columbia Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

20. **THIS COURT ORDERS** that in order to be entitled to participate in the Net Settlement Fund (as defined in the Stipulation), each British Columbia Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than 120 days after the date set herein for the mailing of the Notice. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund (as defined in the Stipulation).

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

21. **THIS COURT ORDERS** that the Proof of Claim submitted by each British Columbia Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the British Columbia Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

22. **THIS COURT ORDERS** that, as part of the Proof of Claim, each British Columbia Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts), release all Settled Claims against the Released Parties.

23. **THIS COURT ORDERS** that British Columbia Class Members who wish to file with the Court an objection to or comment on the Settlement or to the approval of British Columbia Class Counsel Fees, shall deliver a written submission to the Claims

Administrator at the address indicated in the Notice, no later than 60 days after the date set herein for the mailing of the Notice, and the Claims Administrator shall file all such submissions with the Court prior to the hearing of the Settlement Approval Motion.

24. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 of the Stipulation or (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) is terminated pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the certification of the British Columbia Action as a class proceeding for the purpose of the settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the British Columbia Action shall be restored to his, her or its respective position in the litigation as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this action shall be decertified as a class proceeding pursuant to Section 10 of the *Class Proceedings Act, RSBC 1996, c.50*, without prejudice to the Plaintiffs' ability to reapply for certification.

25. **THIS COURT ACKNOWLEDGES** having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon by Nortel for an exemption, pursuant to Section 3(a)(10) of the *United States Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), to enable the Gross Settlement Shares to he distributed to Class Members, and to counsel for the Representative Plaintiffs as may be

awarded by the respective Courts, without registration and compliance with the prospectus delivery requirements of U.S. securities laws.

BY THE COURT

/s/ /s/
DEPUTY DISTRICT REGISTRAR

CHECKED/FORM
/s/

Approved as to form and consented to:

/s/
Solicitor for the Plaintiffs

/s/
Solicitor for the Defendants
Nortel Networks Corporation,
John A. Roth, F. William Conner
and Chahram Bolouri

[stamp
ENTERED
JUN 27 2006
VANCOUVER REGISTRY
VOL S1389 FOL 98]

No. S015159
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN:

JANIE JEFFERY and RONALD MENSING

Plaintiffs

AND:

NORTEL NETWORKS CORPORATION, JOHN A ROTH, FRANK A. DUNN, F. WILLIAM CONNOR and CHAHRAM BOLOURI

Defendants

ORDER

Klein Lyons
Barristers & Solicitors
Suite 1100 – 1333 West Broadway
Vancouver, BC V6H 4C1

Tel: 604-874-7171

Attention: David A. Klein

EXHIBIT 10.15

Court File No. 05-CV-285606CP

ONTARIO
SUPERIOR COURT OF JUSTICE

THE HONOURABLE SENIOR REGIONAL	)	TUESDAY, THE 27TH DAY
	)	
JUSTICE _____	)	OF JUNE, 2006

BETWEEN

PETER GALLARDI

Plaintiff

- and -

NORTEL NETWORKS CORPORATION, FRANK A. DUNN
DOUGLAS BEATTY, MICHAEL GOLLOGLY,
JOHN EDWARD CLEGHORN, ROBERT ELLIS BROWN,
ROBERT ALEXANDER INGRAM, GUYLAINE SAUCIER,
SHERWOOD HUBBARD SMITH, JR. and DELOITTE & TOUCHE LLP

Defendants

Proceedings under the *Class Proceeding Act, 1992*

ORDER

THIS MOTION made by the Plaintiff for an Order certifying this action as a class proceeding for the purpose of settlement, approving the notice to class members and other declaratory relief was heard this day at the Court House, 361 University Avenue, Toronto, Ontario.

ON READING the materials filed, including the Settlement Agreement (defined herein), and on hearing the submissions of counsel for the Plaintiff and counsel for the Defendants:

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1. **THIS COURT ORDERS AND DECLARES** that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 10 herein to administer the **Settlement**;

(b) "**Class Members**" means members of the Ontario National Class, the Quebec Class and the U.S. Global Class;

(c) "**Class Period**" means the period of time between April 24, 2003 through April 27, 2004, inclusive;

(d) "**Courts**" means this Court, the Supreme Court of British Columbia and the United States District Court for the Southern District of New York;

(e) "**Defendants**" means the persons and entities named as defendants in the **Ontario National Action**;

(f) "**Escrow Agent**" has the meaning set forth in the **Stipulation**;

(g) "**Excluded Persons**" means: (i) Nortel and the **Individual Defendants**; (ii) the Other Individuals; (iii) members of any of the **Individual Defendants'** immediate families; (iv) any entity in which Nortel or any of the **Individuals Defendants** or the **Other Individuals** has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or directors of Nortel or any of its subsidiaries or affiliates during the **Class Period**; and (vii) legal representatives, heirs, predecessors, successors or assigns of any of the Excluded Persons;

(h) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(i) "**Gross Settlement Fund**" has the meaning set forth in the **Stipulation**;

(j) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(k) "**Individual Defendants**" means Frank A. Dunn, Douglas Beatty, Michael Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier and Sherwood Hubbard Smith, Jr.;

(l) "**Nortel**" means the Defendant, Nortel Networks Corporation;

(m) "**Nortel II Actions**" means the **Ontario National Action**, the **Quebec Action**, and the **U.S. Action**;

(n) "**Nortel II Defendants**" means Nortel, the **Individual Defendants** and Deloitte & Touche LLP;

(o) "**Notice**" means the notice to the class in the **Nortel II Actions**, substantially in the form attached as Schedule "B" to this Order;

(p) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice, Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "E" to this Order;

(q) "**Ontario National Action**" means this proceeding which raises claims in the nature of negligence, negligent and/or reckless misrepresentation, and alleges breaches of the *Canada Business Corporations Act, Competition Act* and Ontario *Securities Act*, for which relief is sought through an award of damages;

(r) "**Ontario National Class**" means the class certified for the purpose of settlement in the **Ontario National Action** pursuant to paragraph 3 of this Order;

(s) "**Ontario National Class Counsel**" means Rochon Genova LLP and Lerners LLP;

(t) "**Ontario National Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Ontario National Class Counsel**;

(u) "**Ontario National Class Member**" means a member of the **Ontario National Class** who does not opt out of the **Ontario National Class** in the manner set forth in this Order;

(v) "**Other Individuals**" means James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia);

(w) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order;

(x) "**Publication Notice**" means the summary notice of certification and proposed settlement, and of the hearing of the **Settlement Approval Motion**, substantially in the form attached as Schedule "D" to this Order;

(y) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Nortel II Actions**;

(z) "**Quebec Action**" means the proceeding in the Superior Court of Quebec (District of Montreal), *Clifford W. Skarstedt v. Corporation Nortel Networks*, No. 500-06-000277-059;

(aa) "**Quebec Class**" means all persons and "entities", except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**. For purposes of the definition of Quebec Class, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm' s length with the representative of the Quebec Class;

(bb) "**Released Parties**" means any and all of the **Nortel II Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel II Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel II Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel II Defendants**;

(cc) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel II Actions** against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel II Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel II Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the *Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel II Actions**. "Settled Claims"

does not mean or include claims, if any, against the Released Parties: (a) arising under the United States *Employee Retirement Income Security Act* of 1974, as amended, 29 U.S.C. § 1001, *et seq*. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include: (a) the action in *Rohac et al v. Nortel Networks et al*, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties**;

(dd) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached as Schedule "A" thereto, entered into between the Plaintiffs and Nortel, dated June 20, 2006, which is attached to this Order as Schedule "A";

(ee) "**Settlement**" means the proposed settlement of the **Nortel II Actions** pursuant to the terms set forth in the **Settlement Agreement** adopting and ratifying the **Stipulation**;

(ff) "**Settlement Approval Motion**" means the motion for final approval of the **Settlement** by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(gg) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the Settlement Agreement as Schedule "A";

(hh) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the Stipulation setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(ii) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(jj) "**U.S. Action**" means the proceeding in the U.S. Federal District Court for the Southern District of New York, Master File No. 05-MD-1659 (LAP);

(kk) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange.

2. **THIS COURT ORDERS** that the Ontario National Action be certified as a class proceeding for the purpose of settlement.

3. **THIS COURT ORDERS** that the Ontario National Class be defined as:

> All persons and entities, except Excluded Persons and members of the Quebec Class, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the Class Period.

4. **THIS COURT ORDERS** that Peter Gallardi be and is hereby appointed as the representative plaintiff for the Ontario National Class.

5. **THIS COURT ORDERS** that the Ontario National Action is certified as a class proceeding for the purpose of settlement on the basis of the following common issue:

> Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings during the Class Period?

6. **THIS COURT ORDERS** that the Settlement Approval Motion and the motion by Ontario National Class Counsel for approval of Ontario National Class Counsel Fees shall be heard by this Court on a date to be set by the Registrar, approximately 90 days from the date set herein for the mailing of the notice at the Court House at 361 University Avenue, Toronto, Ontario.

7. **THIS COURT ORDERS** that each potential member of the Ontario National Class who elects to opt out of the Ontario National Class must do so by writing a letter, signed by such person, clearly requesting exclusion and clearly indicating the name, address and

telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common stock or call options on Nortel common stock and of all put options of Nortel common stock written (sold) during the Class Period, and sending it by first class mail post marked no later than 60 days after the date set herein for the mailing of the notice, to the address indicated in the Notice.

8. **THIS COURT ORDERS** that any potential member of the Ontario National Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any future Orders in the Ontario National Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in each of the Actions.

9. **THIS COURT ORDERS** that any potential member of the Ontario National Class who opts out of the Ontario National Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel II Actions, shall not be entitled to file a Proof of Claim as provided in paragraph 19 of this Order, shall not be entitled to receive any payment out of the Settlement and shall not be entitled to object to the approval of the Settlement as provided in paragraph 21 of this Order.

10. **THIS COURT ORDERS** that The Garden City Group, Inc. is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the Ontario National Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

11. **THIS COURT ORDERS** that the Escrow Agent, acting in its capacity as escrow agent, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

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12. **THIS COURT ORDERS** that the form and content of the Notice, substantially in the form attached hereto as Schedule "B", is hereby approved.

13. **THIS COURT ORDERS** that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

14. **THIS COURT ORDERS** that the plan of dissemination of the Notice substantially in the manner described in the Notice Plan attached to this Order as Schedule "D" is hereby approved.

15. **THIS COURT ORDERS** that upon approval of the Notice and the Proof of Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, on or before 14 days after entry of the last order by any of the courts in the Nortel II actions and the Nortel I actions (as defined in the stipulation) approving the notice applicable to that proceeding, to all members of the Ontario National Class who can be identified with reasonable effort, in accordance with the Notice Plan.

16. **THIS COURT ORDERS** that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

17. **THIS COURT ORDERS** that Ontario National Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

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18. **THIS COURT ORDERS** that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved, and directs that Claims Administrator shall cause the Publication Notice to be published in accordance with the Notice Plan, which publication shall begin within ten (10) days of the mailing of the Notice, and Ontario National Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

19. **THIS COURT ORDERS** that in order to be entitled to participate in the Net Settlement Fund (as defined in the Stipulation), each Ontario National Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than 120 days after the date set herein for the mailing of the Notice. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund.

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

20. **THIS COURT ORDERS** that the Proof of Claim submitted by each Ontario National Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Ontario National Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

21. **THIS COURT ORDERS** that, as part of the Proof of Claim, each Ontario National Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts) release all Settled Claims against the Released Parties.

22. **THIS COURT ORDERS** that Ontario National Class Members who wish to file with the Court an objection or comment to the Settlement or to the approval of Ontario National Class Counsel Fees shall deliver a written submission to the Claims Administrator at the address indicated in the Notice, no later than 60 days after the date set herein for the mailing of the notice, and the Claims Administrator shall file all such submissions with the Court prior to the hearing o the Settlement Approval Motion.

23. **THIS COURT ORDERS** that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 in the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) the Settlement is terminated pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the certification of the action as a class proceeding for the purpose of settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the Ontario National Action shall be restored to his, her or its respective position in the litigation as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this Action shall be decertified as a

class proceeding pursuant to Section 10 of the *Class Proceedings Act*, 1992, without prejudice to the Plaintiffs ability to reapply for certification.

24. **THIS COURT ACKNOWLEDGES** having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon by Nortel for an exemption, pursuant to Section 3(a)(10) of the United States *Securities Act of 1933*, as amended, 15 U.S.C. § 77c(a)(1), to enable the Gross Settlement Shares to be distributed to Class Members, and to counsel for the Representative Plaintiffs as may be awarded by the respective Courts for counsel fees, without registration and compliance with the prospectus delivery requirements of U.S. securities laws.

25. **THIS COURT DECLARES** that Schedule "A" hereto satisfies the requirements of subsections 8(1)(c) and (d) of the *Class Proceedings Act*, 1992.

/s/ Winkler

entered at/inscrit a toronto
on/book no:
Le/dans le registre no.:

jul 6, 2006

per/par:

PETER GALLARDI Plaintiff	and	NORTEL NETWORKS CORPORATION et al. Defendants	Court File No: 05-CV-285606CP

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

O R D E R

EXHIBIT 10.16

CANADA (CLASS ACTION)

PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

SUPERIOR COURT

PRESIDING: THE HONOURABLE
MADAM JUSTICE MICHELE MONAST, JSC

NO : 500-06-000277-059

CLIFFORD W. SKARSTEDT

Petitioner

- v. -

CORPORATION NORTEL NETWORKS

Respondent

and

FONDS D' AIDE AUX RECOURS COLLECTIFS

Mis en cause

ORDER

THIS MOTION made by the Petitioner for a Judgment authorizing the bringing of the class action for the purpose of settlement pursuant to the **Stipulation** and Agreement of Settlement (the "Settlement Agreement") entered into between the Petitioner and the Respondent was heard this day.

ON READING the materials filed, including the Settlement Agreement (and the exhibits/schedules thereto) attached to this Order as Schedule "A", and on hearing the submissions of counsel for the Petitioner and counsel for the Respondent:

1. THIS COURT ORDERS AND DECLARES that for the purposes of this Order the following definitions apply and are incorporated into this Order:

(a) "**Claims Administrator**" means the entity approved by this Court pursuant to paragraph 10 to administer the **Settlement**;

(b) "**Class Members**" means members of the Ontario National Class, the Quebec Class and the U.S. Global Class;

(c) "**Class Period**" means the period of time between April 24, 2003 through April 27, 2004, inclusive;

(d) "**Courts**" means the Ontario Court, the Quebec Court and the U.S. Court;

(e) "**Defendant**" means the Respondent, Corporation Nortel Networks;

(f) "**Escrow Agent**" has the meaning set forth in the **Stipulation**;

(g) "**Excluded Persons**" means Nortel and the **Individuals**, members of any of the **Individuals**' immediate families, any entity in which Nortel or any of the **Individuals** has a controlling interest or is a parent or subsidiary of or is controlled by Nortel, and the officers, directors, affiliates, legal representatives, heirs, predecessors, successors or assigns of any of Nortel and the **Individuals**;

(h) "**Gross Cash Settlement Fund**" has the meaning set forth in the **Stipulation**;

(i) "**Gross Settlement Fund**" has the meaning set forth in the **Stipulation**;

(j) "**Gross Settlement Shares**" means 314,333,875 shares of common stock of Nortel to be issued by Nortel, pursuant to the **Settlement**, as may be adjusted in accordance with paragraph 4(d) of the **Stipulation**;

(k) "**Individuals**" means Frank A. Dunn, Douglas Beatty, Michael Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, Sherwood Hubbard Smith, Jr., James Kinney (Finance Chief for Nortel' s Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel' s Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel' s Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel' s Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia);

(l) "**Nortel**" means the Respondent, Corporation Nortel Networks;

(m) "**Nortel II Actions**" means the **Ontario National Action**, the **Quebec Action** and the **U.S. Action**;

(n) "**Nortel II Defendants**" means Nortel, Frank A. Dunn, Douglas Beatty, Michael Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, Sherwood Hubbard Smith, Jr. and Deloitte & Touche LLP;

(o) "**Notice**" means the global notice to the classes in the Nortel II Actions substantially in the form attached as Schedule "B" to this Order, as approved in paragraph 12 of this Order;

(p) "**Notice Plan**" means the plan for the publication and dissemination of the **Notice**, **Publication Notice** and **Proof of Claim** by the **Claims Administrator**, attached as Schedule "D" to this Order;

(q) "**Ontario Court**" means the Ontario Superior Court of Justice;

(r) "**Ontario National Action**" means the proceeding in the Ontario Superior Court of Justice, *Gallardi* v. *Nortel Networks Corporation et al*., Court File No. 05-CV-285606CP;

(s) "**Ontario National Class**" means all persons, except **Excluded Persons** and except members of the **Quebec Class**, who, while resident in Canada at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock during the **Class Period**;

(t) "**Proof of Claim**" means the form substantially in the form attached as Schedule "C" to this Order, as approved in paragraph 13 of this Order;

(u) "**Publication Notice**" means the summary notice of certification and proposed settlement, and of the hearing of the **Settlement Approval Motion**, substantially in the form attached as Schedule "E" to this Order (or a French version thereof in the case of the French magazines and newspapers contemplated by the Notice Plan), as approved in paragraph 18 of this Order;

(v) "**Quebec Action**" means this proceeding;

(w) "**Quebec Class**" means all persons and entities, except **Excluded Persons** who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) Nortel put options on Nortel common stock during the **Class Period**. For purposes of the definition of **Quebec Class**, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm' s length with the representative of the **Quebec Class**;

(x) "**Quebec Class Counsel**" means Trudel & Johnston;

(y) "**Quebec Class Counsel Fees**" means the fees, disbursements, costs, GST, and other applicable taxes or charges of **Quebec Class Counsel**;

(z) "**Quebec Class Member**" means a member of the **Quebec Class** who does not opt out of, or request exclusion from, the **Quebec Class** in the manner set forth in this Order;

(aa) "**Quebec Court**" means the Superior Court of Quebec;

(bb) "**Released Parties**" means any and all of the **Nortel II Defendants**, their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, attorneys, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any **Nortel II Defendant** has a controlling interest or which is related to or affiliated with any of the **Nortel II Defendants**, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the **Nortel II Defendants**;

(cc) "**Representative Plaintiffs**" means, collectively, the representative or lead plaintiffs in each of the **Nortel II Actions**;

(dd) "**Settled Claims**" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and **Unknown Claims**, (i) that have been asserted in any of the **Nortel II Actions** against any of the **Released Parties**, or (ii) that could have been asserted in any forum by the **Class Members** in the **Nortel II Actions**, or any of them, against any of the **Released Parties**, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the **Nortel II Actions** and that relate to the purchase of Nortel common stock or call options or the sale of Nortel put options during the **Class Period** or (iii) any oppression or other claims under the Canada Business Corporations Act, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the **Nortel II Actions**. **Settled Claims** does not mean or include claims, if any, against the Released Parties arising under the United States Employee Retirement Income Security Act of 1974, as amended, 29 U.S.C. § 1001, et seq. ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. Settled Claims further does not include: (a) the action in Rohac et al. v. Nortel Networks et al, Ontario Superior Court of Justice, Court File No. 04-CV-3268; and (b) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund* v. *Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business*

Corporations Act to commence a representative action in the name of and on behalf of Nortel against certain of the **Released Parties**;

(ee) "**Settlement Agreement**" means the Settlement Agreement and Confirmation of Stipulation and Agreement of Settlement, including the **Stipulation** attached thereto, entered into between the Plaintiff herein and Nortel, through their counsel dated June 20, 2006, which is attached to this Order as Schedule "A";

(ff) "**Settlement**" means the proposed settlement of the **Nortel II Actions** pursuant to the terms set forth in the **Settlement Agreement** adopting and ratifying the **Stipulation** ;

(gg) "**Settlement Approval Motion**" means the motion for final approval of the **Settlement** by this Court to be heard at the date, time and location described in paragraph 6 of this Order;

(hh) "**Stipulation**" means the Stipulation and Agreement of Settlement attached to the Settlement Agreement as Schedule "A";

(ii) "**Supplemental Agreement**" means the agreement referred to in paragraph 23 of the **Stipulation** setting forth certain conditions under which the **Settlement** may be terminated by Nortel if potential **Class Members** who purchase in excess of a certain number of Nortel common stock or options on Nortel common stock during the **Class Period** exclude themselves from the **Class**;

(jj) "**Unknown Claims**" means any and all **Settled Claims** which any of the **Representative Plaintiffs**, or **Class Members** does not know or suspect to exist in his, her or its favour at the time of the release of the **Released Parties** which if known by him, her or it might have affected his, her or its decision(s) with respect to the **Settlement**;

(kk) "**U.S. Action**" means the proceeding in the United States Federal District Court for the Southern District of New York, *In re Nortel Networks Corp. Securities Litigation*, Master File No. 05-MD-1659 (LAP);

(ll) "**U.S. Court**" means the U.S. Federal District Court for the Southern District of New York; and

(mm) "**U.S. Global Class**" means all persons, except **Excluded Persons**, who purchased Nortel common stock or call options on Nortel common stock or wrote (sold) put options on Nortel common stock (collectively, "Nortel Securities") during the **Class Period**, and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange.

2. THIS COURT ORDERS that the bringing of the Quebec Action as a class action be authorized for the purpose of settlement.

3. THIS COURT ORDERS that the Quebec Class be defined as:

> All persons and entities, except Excluded Persons who, while resident in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock or wrote (sold) Nortel put options on Nortel common stock during the Class Period. For purposes of the definition of Quebec Class, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm' s length with the representative of the Quebec Class.

4. THIS COURT ORDERS that Clifford W. Skarstedt be and is hereby appointed as the representative for the Quebec Class.

5. THIS COURT ORDERS that the bringing of the Quebec Action as a class action is authorized for the purpose of settlement only, on the basis of the following common issue:

> Did Nortel make false or misleading statements or omissions concerning its financial performance or its revenue and earnings during the Class Period?

6. THIS COURT ORDERS that the Settlement Approval Motion and the motion by Quebec Class Counsel for approval of Quebec Class Counsel Fees shall be heard by this Court on a date to be set by this Court, approximately 90 days from the date set herein for the mailing of the Notice, at the Montreal Court House, located at 1, Notre-Dame Street East, Montreal, Quebec.

7. THIS COURT ORDERS that each potential member of the Quebec Class who elects to opt out of the Quebec Class must do so by writing a letter, signed by such person, clearly requesting exclusion and clearly indicating the name, address and telephone number of the person seeking to opt out and the date(s), price(s), and number(s) of shares of all purchases of Nortel common stock or call options on Nortel common stock and of all put options of Nortel common stock written (sold) during the Class Period, and sending it by first class mail post

marked no later than 60 days from the date set herein for the mailing of the Notice, to the address indicated in the Notice.

8. THIS COURT ORDERS that any potential member of the Quebec Class who does not opt out in accordance with paragraph 7 of this Order shall be bound by any future Orders in the Quebec Action, and shall be bound by the terms of the Settlement if approved by each of the Courts in each of the Nortel II Actions.

9. THIS COURT ORDERS that any potential member of the Quebec Class who opts out of the Quebec Class in accordance with paragraph 7 of this Order may no longer participate in the Settlement or any continuation of the Nortel II Actions, shall not be entitled to file a Proof of Claim as provided in paragraph 20 of this Order, shall not be entitled to receive any payment out of the Settlement and shall not be entitled to object to the approval of the Settlement as provided in paragraph 22 of this Order.

10. THIS COURT ORDERS that The Garden City Group, Inc. is hereby appointed and approved as the Claims Administrator, and shall be subject to the jurisdiction of this Court for all matters relating to the Quebec Action, including the administration, interpretation, effectuation or enforcement of the Settlement Agreement and this Order.

11. THIS COURT ORDERS that the Escrow Agent acting in its capacity as escrow agent, shall be subject to the jurisdiction of this Court in respect of the Gross Cash Settlement Fund.

12. THIS COURT ORDERS that the form and content of the Notice, substantially in the form attached hereto as Schedule "B", is hereby approved.

13. THIS COURT ORDERS that the form and content of the Proof of Claim form, substantially in the form attached hereto as Schedule "C", is hereby approved.

14. THIS COURT ORDERS that the plan of dissemination of the Notice substantially in the manner described in the Notice Plan attached to this Order as Schedule "D", is hereby approved.

15. THIS COURT ORDERS that upon approval of the Notice and the Proof of Claim and the appointment of The Garden City Group, Inc. as the Claims Administrator by the Courts, the Claims Administrator shall cause the Notice and the Proof of Claim, substantially in the forms attached as Schedules "B" and "C" to this Order, to be mailed, by first class mail, postage prepaid, no later than 14 days after entry of the last order by any order of the Courts in the Nortel I Actions and the Nortel II Actions (as defined in the Stipulation) approving the Notice applicable to that proceeding, to all of the Quebec Class Members who can be identified with reasonable effort, in accordance with the Notice Plan.

16. THIS COURT ORDERS that additional copies of the Notice shall be made available to any record holder requesting such for the purpose of distribution to beneficial owners, and such record holders shall be reimbursed from the Gross Settlement Fund (as defined in the Stipulation), upon receipt by the Claims Administrator of proper documentation, for the reasonable expense of sending the Notice and Proof of Claim to beneficial owners.

17. THIS COURT ORDERS that Quebec Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with the Court proof of mailing of the Notice and Proof of Claim.

18. THIS COURT ORDERS that the form of Publication Notice in substantially the form and content attached hereto as Schedule "E" is hereby approved, and directs that Claims Administrator shall cause the Publication Notice to be published in accordance with the Notice Plan, which publication shall begin within ten (10) days of the mailing of the Notice, and Quebec

Class Counsel shall, at or before the hearing of the Settlement Approval Motion, file with this Court proof of the publication of the Publication Notice.

19. THIS COURT ORDERS that in order to be entitled to participate in the Net Settlement Fund (as defined in the Stipulation), each Quebec Class Member shall take the following actions and be subject to the following conditions:

(a) A properly executed Proof of Claim, substantially in the form attached hereto as Schedule "C", must be submitted to the Claims Administrator, at the Post Office Box indicated in the Notice, postmarked not later than 120 days after the date set herein for the mailing of the Notice. Such deadline may be further extended by order of this Court.

(b) Each Proof of Claim shall be deemed to have been submitted when postmarked (if properly addressed and mailed by first class mail, postage prepaid) provided such Proof of Claim is actually received prior to the motion for an order of this Court approving distribution of the Net Settlement Fund (as defined in the Stipulation).

(c) Any Proof of Claim submitted in any other manner shall be deemed to have been submitted when it was actually received at the address designated in the Notice.

20. THIS COURT ORDERS that the Proof of Claim submitted by each Quebec Class Member must satisfy the following conditions:

(a) it must be properly completed, signed and submitted in a timely manner in accordance with the provisions of the preceding paragraph;

(b) it must be accompanied by adequate supporting documentation for the transactions reported therein, in the form of broker confirmation slips, broker account statements, an authorized statement from the broker containing the transactional information found in a broker confirmation slip, or such other documentation as is deemed adequate by the Claims Administrator;

(c) if the person executing the Proof of Claim is acting in a representative capacity, a certification of his current authority to act on behalf of the Quebec Class Member must be included in the Proof of Claim; and

(d) the Proof of Claim must be complete and contain no material deletions or modifications of any of the printed matter contained therein and must be signed under penalty of perjury.

21. THIS COURT ORDERS that, as part of the Proof of Claim, each Quebec Class Member shall submit to the jurisdiction of this Court with respect to the claim submitted, and shall (subject to the approval of the Settlement by the Courts) release all Settled Claims against the Released Parties.

22. THIS COURT ORDERS that Quebec Class Members who wish to file with the Court an objection or comment to the Settlement or to the approval of Quebec Class Counsel Fees shall deliver a written submission to the Claims Administrator at the address indicated in the Notice, no later than 60 days after the date set herein for the mailing of the Notice, and the Claims Administrator shall file all such submissions with the Court prior to the hearing of the Settlement Approval Motion.

23. THIS COURT ORDERS that if (a) the Settlement is terminated by Nortel pursuant to the Supplemental Agreement and paragraph 26 in the Stipulation; (b) any specified condition to the Settlement set forth in the Stipulation is not satisfied and any of the Representative Plaintiffs or Nortel elect(s) to terminate the Settlement as provided in paragraph 25 in the Stipulation; or (c) the Settlement is termination pursuant to paragraph 27 of the Stipulation, then: (i) this Order, including the authorization of the bringing of the Quebec Action as a class action for the purpose of settlement, shall be set aside and be of no further force or effect, and without prejudice to any party; (ii) each party to the Quebec Action shall be restored to his, her or its respective position in the litigation as it existed immediately prior to the execution of the Settlement Agreement; and (iii) this Action authorizing the bringing of the class action shall be annulled pursuant to the Code of Civil Procedure, without prejudice to the Petitioner' s ability to reapply for certification.

24. THIS COURT ACKNOWLEDGES having been notified that a determination of fairness of the Settlement at the Settlement Approval Hearing will be relied upon by Nortel for

an exemption, pursuant to Section 3(a)(10) of the United States Securities Act of 1933, as amended, 15 U.S.C. § 77c(a)(1), to enable the Gross Settlement Shares to be distributed to Class Members, and to counsel for the Representative Plaintiffs as may be awarded by the respective Courts for counsel fees, without registration and compliance with the prospectus delivery requirements of U.S. securities laws.

27 Juin 2006	/s/ Michèle Monast
Date	J.S.C.

Exhibit 10.17

NORTEL NETWORKS CORPORATION
AND
NORTEL NETWORKS LIMITED
MEETING OF THE BOARDS OF DIRECTORS
JUNE 28, 2006

EXTRACT

* * * *

RESOLVED, that, the voluntary reduction by Mr. Zafirovski of his special lifetime annual pension benefit of 29% be accepted and approved.

EXHIBIT 31.1

Certification

I, MIKE S. ZAFIROVSKI, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the second quarter of 2006 of Nortel Networks Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 2, 2006

/s/ Mike S. Zafirovski

Mike S. Zafirovski
President and Chief Executive Officer

EXHIBIT 31.2

Certification

I, PETER W. CURRIE, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the second quarter of 2006 of Nortel Networks Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 2, 2006

/s/ Peter W. Currie

Peter W. Currie
Executive Vice-President and Chief Financial Officer

EXHIBIT 32

Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Nortel Networks Corporation, a Canadian corporation (the "Company"), does hereby certify, to such officer' s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mike S. Zafirovski

Mike S. Zafirovski
President and Chief Executive Officer

Dated: August 2, 2006

/s/ Peter W. Currie

Peter W. Currie
Executive Vice-President and Chief Financial Officer

Dated: August 2, 2006