IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c. S.5, AS AMENDED

- and -

IN THE MATTER OF
NORTEL NETWORKS CORPORATION and NORTEL NETWORKS LIMITED
(collectively, "Nortel")

SETTLEMENT AGREEMENT BETWEEN STAFF OF THE ONTARIO SECURITIES COMMISSION AND NORTEL

May 16, 2007

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Staff of the Ontario Securities Commission

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I. INTRODUCTION

1. On May 16, 2007, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing pursuant to sections 127 and 127.1 of the *Securities Act,* R.S.O. 1990, c.. S.5, as amended (the "Act") to consider this Settlement Agreement between Staff of the Commission ("Staff") and Nortel.

II. JOINT SETTLEMENT RECOMMENDATION

2. Staff agree to recommend settlement of the proceeding against Nortel in accordance with the terms and conditions set out below (the "Settlement"). Nortel consents to the making of an order against it in the form attached as Schedule "A" based on the facts set out in Part III of this Settlement Agreement.

III. STATEMENT OF FACTS

3. For the purpose of this Settlement only, Nortel agrees with the facts set out in this Part III.

4. Staff and Nortel agree that the facts set out in this Part III for the purposes of this Settlement are without prejudice to Nortel in any other proceeding of any kind including, but without limiting the generality of the foregoing, any proceedings brought by the Commission under the Act (subject to paragraph 81) or any civil, criminal or other proceedings currently pending or which may be brought by any other person or agency. Without limiting the generality of the foregoing sentence, Nortel expressly denies that this Settlement Agreement is intended to be an admission of civil or criminal liability by Nortel and Nortel expressly denies any such admission of civil or criminal liability.

5. All dollar amounts referred to herein, unless otherwise stated, are in U.S. dollars and, unless otherwise stated, all references to financial results are to Nortel Networks Corporation's results reported in its consolidated financial statements for the relevant period prepared under generally accepted accounting principles ("GAAP") in the United States ("U.S. GAAP").

A. The Respondents

6. Nortel Networks Corporation ("NNC") is a reporting issuer in Ontario and its shares are listed on both the Toronto and New York stock exchanges under the symbol "NT".

7. Nortel Networks Limited ("NNL") is the principal direct operating subsidiary of NNC. NNL is a reporting issuer in Ontario and its preferred shares are listed on the Toronto Stock Exchange under the symbol "NTL". All of NNL's issued and outstanding common shares are held by NNC.

8. The principal executive offices of NNC and NNL (collectively referred to herein as "Nortel" or the "Company") are located in Toronto, Ontario.

B. Overview of Agreed Facts

9. The conduct at issue relates to Nortel's financial results for the fiscal year ended December 31, 2000, the third and fourth quarters of 2002 and the first and second quarters of 2003. These time periods are referred to herein individually as the "Relevant Fiscal Periods" and collectively as the "Material Time".

10. For each of the Relevant Fiscal Periods, each of NNC and NNL prepared and filed with the Commission two sets of financial statements which were represented to have been prepared either in accordance with U.S. GAAP or GAAP in Canada ("Canadian GAAP"), as the case may be.

11. During the Material Time, the emphasis by former members of Nortel's senior corporate finance management on meeting revenue and/or earnings targets led to a culture within the finance organization of Nortel that condoned two types of inappropriate accounting practices (described in paragraphs 13 and 14 below), which did not comply with applicable GAAP and were contrary to the public interest.

12. Further, during the Material Time, Nortel failed to implement appropriate internal controls and procedures to identify, monitor, control and fully disclose the accounting practices described in paragraphs 13 and 14 below, which failure was contrary to the public interest.

(i) Revenue Recognition

13. During the 2000 fiscal year, former Nortel senior corporate finance management inappropriately changed Nortel's accounting policies several times either to recognize revenue prematurely or to defer the recognition of revenue to a subsequent period. After changing internal accounting policies, these same senior corporate finance managers did not understand the relevant U.S. GAAP requirements, misapplied these U.S. GAAP requirements and, in certain circumstances, "turned a blind eye" to these U.S. GAAP requirements. As a result, revenue was recognized for numerous transactions for the fiscal year ended December 31, 2000 in a manner not in accordance with U.S. GAAP. This conduct was driven by the need to close the gap between actual and targeted revenue and earnings.

(ii) Provisioning

14. During the third and fourth quarters of 2002 and the first and second quarters of 2003, former Nortel corporate and finance management (who have since been terminated for cause) endorsed, and finance employees carried out, accounting practices relating to the

recording and release of certain accrued liabilities and provisions that were not in accordance with U.S. GAAP or Canadian GAAP. In three of those four quarters, these practices were undertaken to meet internally imposed pro forma earnings before taxes targets. While the dollar amount of most of the individual provisions was relatively small, the aggregate value of the provisions made the difference between a profit and a loss, on a pro forma basis, in the fourth quarter of 2002 and the difference between a loss and a profit, on a pro forma basis, in the first and second quarters of 2003. The pro forma calculation was used by the Company to make its determination on whether to award various bonuses under bonus plans that provided for payments tied to a pro forma profitability metric.

15. Nortel admits that these inappropriate accounting practices and the absence of effective internal control over its financial reporting contributed to the issuance of financial statements by the Company during the Material Time that were not in compliance with U.S. GAAP and/or Canadian GAAP. As a result of these practices and internal control deficiencies, Nortel was required to restate its publicly disclosed U.S. GAAP and Canadian GAAP financial statements for the Relevant Fiscal Periods and other fiscal periods as described herein.

C. The Restatements

(i) First Restatement

16. In May 2003, Nortel commenced certain balance sheet reviews at the direction of certain former members of management that led to a review and analysis of the Company's assets and liabilities (the "Balance Sheet Review").

17. The objectives of the Balance Sheet Review were reported to be to: (i) identify balance sheet accounts that, as at June 30, 2003, were not supportable and required adjustment; (ii) determine whether such adjustments related to the third quarter of 2003 or prior periods; and (iii) document certain account balances in accordance with Nortel's accounting policies and procedures.

18. The Balance Sheet Review was supplemented by additional procedures carried out between July and November 2003 to quantify the effects of potential adjustments and review the appropriateness of releases of certain contractual liability and other related provisions (also called accruals, reserves or accrued liabilities) in the six fiscal quarters ending with the fiscal quarter ended June 30, 2003.

19. The Balance Sheet Review, as supplemented, resulted in 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").

20. The net effect of the adjustments made to NNC's financial statements in the First Restatement was a reduction in accumulated deficit of $497 million, $178 million and $31 million as at December 31, 2002, 2001 and 2000, respectively. Among the adjustments made as part of the First Restatement, approximately $935 million and $514 million of certain liabilities (primarily accruals and provisions) carried on NNC's previously reported consolidated balance sheet as at December 31, 2002 and 2001, respectively, were released to income in prior periods.

21. On December 23, 2003, each of NNC and NNL filed with the United States Securities and Exchange Commission (the "SEC") its amended Annual Report on Form 10-K/A for the year ended December 31, 2002 and amended Quarterly Reports on Form 10-Q/A for the quarters ended March 31, 2003 and June 30, 2003 reflecting the First Restatement. On the same date, these same documents, together with the corresponding filings represented to have been prepared in accordance with Canadian GAAP, were filed with the Commission.

22. In conjunction with the First Restatement, Nortel's external auditors, Deloitte & Touche LLP ("D&T"), informed the Audit Committee that there were two "reportable conditions", each of which constituted a "material weakness" in Nortel's internal control over financial reporting (as such terms were formerly defined under standards established by the American Institute of Certified Public Accountants (the "AICPA"), which were applicable with respect to 2003). These reportable conditions, which were disclosed in

NNC's and NNL's Quarterly Reports on Form 10-Q for the quarter ended September 30, 2003 filed with the SEC and the Commission in November 2003, were as follows:

(i) lack of compliance with established Nortel procedures for monitoring and adjusting balances relating to certain accruals and provisions, including restructuring charges; and

(ii) lack of compliance with established Nortel procedures for appropriately applying U.S. GAAP to the initial recording of certain liabilities, including those described in Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies" ("SFAS No. 5"), and to foreign currency translation as described in SFAS No. 52, "Foreign Currency Translation" ("SFAS No. 52").

These material weaknesses contributed to the need for the First Restatement.

(ii) Independent Review

23. In late October 2003, the Audit Committees of the Boards of Directors of NNC and NNL (collectively, the "Audit Committee") initiated an independent review of the facts and circumstances leading to the First Restatement (the "Independent Review"), and engaged the law firm Wilmer Cutler Pickering Hale and Dorr LLP ("WilmerHale") to advise it in connection with the Independent Review. WilmerHale retained Huron Consulting Services LLC ("Huron") to provide expert accounting assistance.

24. Through the Independent Review, the Audit Committee sought to gain a full understanding of the events that caused significant excess liabilities to be maintained on Nortel's balance sheet that needed to be restated, and to recommend that the Boards of Directors of NNC and NNL (collectively, the "Board") adopt, and direct management to implement, necessary remedial measures to address personnel, controls, compliance and discipline.

25. The Independent Review focused initially on events relating to the establishment and release of contractual liability and other related provisions in the second half of 2002 and the first half of 2003, including the involvement of the Company's senior corporate

leadership. As the review evolved, its focus was broadened to include specific provisioning activities in each of the Company's business units and geographic regions and was expanded to include provisioning activities in the third and fourth quarters of 2003.

26. Based on periodic reports by WilmerHale on the progress of the Independent Review, the Audit Committee recommended, and the Board approved, the termination for cause in April 2004 of Frank Dunn ("Dunn"), the Company's former President and Chief Executive Officer, Douglas Beatty ("Beatty"), the Company's former Chief Financial Officer, and Michael Gollogly ("Gollogly"), the Company's former Controller, and in August 2004 of seven additional senior finance employees with significant responsibility for Nortel's financial reporting as a whole or for their respective business units and geographic regions.

27. In January 2005, the Audit Committee reported to the Board the findings of the Independent Review as set forth in a document entitled "Summary of Findings and of Recommended Remedial Measures of the Independent Review" submitted to the Audit Committee by WilmerHale and Huron (the "Independent Review Summary"). The Audit Committee adopted the findings of the Independent Review and the recommended remedial measures set forth in the Independent Review Summary in their entirety. The Independent Review Summary was appended, in its entirety, to a press release issued by Nortel on January 11, 2005 and filed with the Commission and was reproduced, in its entirety, in NNC's and NNL's Annual Reports on Form 10-K for the year ended December 31, 2003 (collectively, the "2003 Annual Report") filed with the SEC and the Commission in January 2005.

28. The Independent Review concluded that former corporate management (who had been terminated for cause) and former finance management in Nortel's Finance organization (who had also been terminated for cause) endorsed, and employees carried out, accounting practices relating to the recording and release of provisions that were not in compliance with U.S. GAAP in at least four quarters, including the third and fourth quarters of 2002 and the first and second quarters of 2003. In three of those four quarters

– when Nortel was at, or close to, break even – these practices were undertaken to meet internally imposed pro forma earnings before taxes ("EBT") targets. While the dollar value of most of the individual provisions was relatively small, the aggregate value of the provisions made the difference between a profit and a reported loss, on a pro forma basis, in the fourth quarter of 2002 and the difference between a loss and a reported profit, on a pro forma basis, in the first and second quarters of 2003. This conduct caused Nortel to report a loss in the fourth quarter of 2002 and to pay no employee bonuses, and to achieve and maintain profitability in the first and second quarters of 2003, which, in turn, caused it to pay bonuses to all Nortel employees and significant bonuses to senior management under bonus plans tied to a pro forma profitability metric.

29. Nortel admits that the inappropriate accounting practices referred to above relating to the recording and release of provisions, and discussed more fully in the Independent Review Summary, were also not in compliance with Canadian GAAP.

30. The findings of fact set forth in the Independent Review Summary, attached hereto as Schedule "B", are expressly incorporated in Part III of this Settlement Agreement.

31. At the request of the Audit Committee, the Independent Review Summary also set forth governing principles for remedial measures recommended by WilmerHale. The recommendations were directed at:

(i) establishing standards of conduct to be enforced through appropriate discipline;

(ii) infusing strong technical skills and experience into the Finance organization;

(iii) requiring comprehensive, on-going training on increasingly complex accounting standards;

(iv) strengthening and improving internal controls and processes;

(v) establishing a compliance program throughout the Company which is appropriately staffed and funded;

(vi) requiring management to provide clear and concise information, in a timely manner, to the Board to facilitate its decision-making; and

(vii) implementing an information technology platform that improves the reliability of financial reporting and reduces opportunities for manipulation of results.

32. The Audit Committee recommended, and the Board approved, the adoption of all of the recommendations contained in the Independent Review Summary. The Board directed management to develop a detailed plan and timetable for the implementation of these recommendations, the results of which are described in Schedule "C" attached hereto.

(iii) Second Restatement

33. As the Independent Review progressed, the Audit Committee directed Nortel's new corporate management to examine in depth the concerns identified by WilmerHale regarding provisioning activity. That examination, and other errors identified by management including errors relating to revenue recognition, led to the restatement of Nortel's 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"), and the revision of NNC's previously announced unaudited results for the year ended December 31, 2003.

34. Overall in the Second Restatement, as a result of adjustments to correct errors related to revenue recognition, NNC increased revenues by an aggregate of $1.492 billion in 2001 and $439 million in 2002. NNC also increased previously announced 2003 revenues by an aggregate of $386 million. Most of these adjustments constituted the recognition of revenue that had previously been improperly recognized in prior years and should have been deferred (often over a number of years). This also had the effect of reducing previously reported revenues in 1998, 1999 and 2000 by approximately $158 million, $355 million and $2.866 billion, respectively. Of these adjustments identified in the Second Restatement, approximately $750 million of revenues was deferred to years after 2003, while approximately $250 million of revenues was permanently reversed.

35. Some of the adjustments related to errors involving issues in connection with arrangements known as "bill and hold" transactions, in which revenue is recognized before actual delivery of the product. During the Second Restatement process, Nortel management determined that the relevant U.S. GAAP accounting policy had been incorrectly applied to a number of contracts, and revenues had been recognized where the relevant criteria had not been fully met, and therefore deferred all revenues associated with bill and hold arrangements to subsequent periods. With respect to the fourth quarter of 2000, approximately $1 billion of revenue was recognized incorrectly from bill and hold transactions which failed to meet the appropriate accounting guidance as set out in the SEC's Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"). Subsequently, in the course of the Revenue Independent Review (as defined below), it was determined that former senior finance management, contrary to earlier advice received from D&T as to the criteria that should be met pursuant to SAB 101 in order to recognize revenue when delivery of product has not occurred, had failed to ensure that bill and hold transactions be requested by the buyer (not the seller) in accordance with the guidance set out in SAB 101.

36. Over the course of the Second Restatement process, management and D&T identified a number of additional reportable conditions, each constituting a material weakness, in Nortel's internal control over financial reporting as at December 31, 2003. At the time of the Second Restatement, a total of six material weaknesses had been identified. The material weaknesses identified were:

(i) 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;

(ii) 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;

(iii) 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;

(iv) 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;

(v) lack of sufficient awareness of, and timely and appropriate remediation of, internal control issues by Nortel personnel; and

(vi) an inappropriate "tone at the top", which contributed to the lack of a strong control environment. As reported in the Independent Review Summary, there was a "[m]anagement 'tone at the top' that conveyed the strong leadership message that earnings targets could be met through application of accounting practices that finance managers knew or ought to have known were not in compliance with U.S. GAAP and that questioning these practices was not acceptable".

These material weaknesses contributed to the need for the Second Restatement.

(iv) Revenue Independent Review

37. In light of the magnitude of the Second Restatement adjustments to previously reported revenues, 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 (the "Revenue Independent Review"), with a particular emphasis on the underlying conduct that led to the initial recognition of these revenues. The Revenue Independent Review also considered any appropriate additional remedial measures, including those involving internal controls and processes.

38. The Audit Committee engaged WilmerHale to advise it in connection with the Revenue Independent Review. WilmerHale retained Huron to provide expert accounting assistance.

39. The Revenue Independent Review focused principally on transactions that accounted for approximately \$3.0 billion of the \$3.4 billion in restated revenue from the Second Restatement, with a particular emphasis on transactions that accounted for approximately \$2.6 billion in the fourth quarter of 2000.

40. The Revenue Independent Review found, and Nortel admits, that, in an effort to meet internal and external targets, Nortel's senior corporate finance management team, none of whom are current employees of the Company, changed the Company's accounting policies several times during 2000, either to defer revenue out to a subsequent period or pull revenue into the current period. After changing internal accounting policies, senior corporate finance management did not understand the relevant U.S. GAAP requirements, misapplied these U.S. GAAP requirements, and in certain circumstances, "turned a blind eye" to these U.S. GAAP requirements. As a result, the Revenue Independent Review concluded that Nortel recognized revenue for numerous transactions with disregard for the proper accounting and this conduct was driven by the need to close revenue and earnings gaps.

41. The findings of the Revenue Independent Review were presented to the Audit Committee and the Board and disclosed in NNC's and NNL's amended Annual Reports on Form 10-K/A for the year ended December 31, 2005 (collectively, the "2005 Annual Report") filed with the SEC and the Commission. As disclosed in the 2005 Annual Report, the first five of the six material weaknesses in Nortel's internal control over financial reporting described in paragraph 36 continued to exist as at December 31, 2005 (as the term "material weakness" is now defined under standards established by the United States Public Company Accounting Oversight Board (the "PCAOB")).

(v) Further Conclusions Respecting Conduct

42. The filing by Nortel with the Commission of financial statements for each of the Relevant Fiscal Periods that did not comply with Canadian GAAP, as set out above, was contrary to sections 77 and 78 of the Act.

43. Nortel's representation in its financial statements filed with the Commission for each of the Relevant Fiscal Periods (and in its other continuous disclosure filings for the Relevant Fiscal Periods containing financial information derived from such financial statements) that such financial statements had been prepared in accordance with Canadian GAAP or U.S. GAAP, as the case may be, was materially misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statement not misleading, and was contrary to the public interest.

44. The inappropriate provisioning and revenue recognition practices which the Independent Review or the Revenue Independent Review, as applicable, found to have occurred were contrary to the public interest.

(vi) Third Restatement

45. As part of its remediation efforts and to compensate for the material weaknesses in Nortel's internal control over financial reporting, management undertook in 2005 and early 2006 to enhance Nortel's internal controls and procedures relating to recognition of revenue. These efforts included 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 SEC Staff Accounting Bulletin 104, "Revenue Recognition" and AICPA Statement of Position ("SOP") 97-2, "Software Revenue Recognition".

46. In addition, based on Nortel's review of its revenue recognition policies and discussions with D&T as part of the 2005 audit, Nortel determined that in its previous application of these policies, it had 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", as described below:

(i) certain complex arrangements with multiple deliverables had been previously accounted for under the percentage-of-completion method of SOP 81-1, but elements outside the scope of SOP 81-1 should have been examined for separation under the guidance in Financial Accounting Standards Board Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements for Multiple Deliverables"; and

(ii) 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.

47. Management's determination that these errors required correction led to the Audit Committee's decision on March 9, 2006 to effect a restatement of Nortel's financial statements for the years ended December 31, 2004, 2003, 2002 and 2001 and the first three quarters of 2005 (the "Third Restatement"). Overall in the Third Restatement, as a result of adjustments to correct errors related to revenue recognition, NNC decreased revenues by an aggregate of $261 million, $312 million and $520 million in 2003, 2004 and the first nine months of 2005, respectively. These adjustments constituted the recognition of revenues that had previously been improperly recognized in prior periods and should have been deferred to future periods. This also had the effect of reducing NNC's previously reported revenues in 2001 and 2002 by approximately $67 million and $270 million, respectively.

48. 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 in the Third Restatement and the Second Restatement. Internal Audit engaged third party forensic accountants to assist in the review. On completion of its review, Internal Audit reported

to the Audit Committee that, among other things, it found no evidence of intent to improperly record revenues associated with the contracts included in the Third Restatement nor any evidence of misconduct other than what was previously reported by WilmerHale in connection with the Independent Review and Revenue Independent Review. The findings of Internal Audit were disclosed in NNC's and NNL's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2006 filed with the SEC and the Commission.

IV. MITIGATING FACTS AND CHANGES IMPLEMENTED OR PLANNED BY NORTEL

(i) Co-operation of Nortel

49. Staff acknowledge that Nortel has been co-operative with Staff throughout Staff's review of these matters and has acted in accordance with Commission Staff Notice 15-702 – Credit for Cooperation.

50. The Company has represented, and Staff accept, that when first apprised of the need for the First Restatement, the Audit Committee initiated the Independent Review on its own accord and in circumstances where the Audit Committee had no belief that misconduct was involved.

51. The Audit Committee, consisting solely of outside (non-management) directors, supervised and directed the Independent Review and retained experienced counsel with no prior relationship with Nortel to assist it.

52. Nortel promptly reported to Staff the need for each of the restatements as well as the Independent Review.

53. Similarly, when during the course of work on the Second Restatement Nortel's management identified certain errors relating to the recognition of revenue, Staff were promptly advised of the matter and also of the Audit Committee's decision to conduct another independent review into the facts and circumstances that led to those errors. WilmerHale was again retained to assist in the Revenue Independent Review.

54. Throughout the Independent Review and the Revenue Independent Review, the Audit Committee provided to Staff, through counsel, reports on the progress of each review, including by way of comprehensive briefings by WilmerHale and Huron to Staff.

55. Staff have been assisted by Nortel throughout Staff's investigation in their gathering and review of the underlying facts. Nortel has volunteered documents sought by Staff to assess the matters. In addition, numerous of Nortel's present and former employees, officers and directors have made themselves available to Staff to be voluntarily interviewed on request.

56. The findings of the Independent Review were publicly disclosed by Nortel in January 2005 by appending the Independent Review Summary, in its entirety, to a press release issued by Nortel and reproducing it, in its entirety, in the 2003 Annual Report. The findings of the Revenue Independent Review were also publicly disclosed by Nortel in the 2005 Annual Report.

57. As described more fully below in Part IV(iii), Nortel has undertaken the broad-based remediation recommended by the Independent Review to prevent a recurrence, to rebuild Nortel's corporate culture, and to ensure sound financial reporting.

58. NNC has addressed the claims of shareholders who are part of class action lawsuits filed in Canada and the United States through the settlement of those class actions, described below in Part IV(ii). These shareholder class actions concern NNC's financial statements for certain of the Relevant Fiscal Periods. Shareholders who have opted out of the proposed settlement can pursue individual claims against NNC if they so choose. In addition to individual claims against Nortel, class action litigation purportedly on behalf of certain participants and beneficiaries of the Nortel Long-Term Investment Plan also remains outstanding in Tennessee under the United States *Employee Retirement Income Security Act* arising out of certain of the factual matters addressed herein.

59. Nortel has shared, and continues to share, with Staff and to publicly disclose in its quarterly and annual public filings, management's progress in implementing the various remedial measures to address the findings of the Independent Review and the Revenue

Independent Review and to address the material weaknesses in the Company's internal control over financial reporting.

(ii) Settlement of Shareholder Class Actions

60. On June 20, 2006, NNC entered into concurrent and related settlement agreements with the respective lead or representative plaintiffs in seven class action lawsuits in Canada and the United States brought on behalf of persons who purchased NNC common shares or call options on NNC common shares, or who wrote (sold) put options on NNC common shares, during the periods October 24, 2000 through February 15, 2001 and April 24, 2003 through April 27, 2004 (the "Shareholder Class Action Settlement").

61. The claims raised in these various class action proceedings include claims relating to NNC's reporting of financial results during the Material Time.

62. Under the terms of the Shareholder Class Action Settlement, NNC agreed to contribute to a global settlement fund for class members a total of $575 million in cash plus related interest of approximately $5 million and issue 628,667,750 common shares of NNC (which was adjusted to 62,866,775 common shares to account for a one-for-ten share consolidation implemented by NNC effective December 1, 2006), and contribute one-half of any recovery in NNC's existing litigation against Messrs. Beatty, Dunn and Gollogly seeking the return of bonus compensation paid to them in 2003. NNC's insurers also agreed to contribute a total of $228.5 million to the global settlement fund. NNC further agreed to certain corporate governance enhancements.

63. The Shareholder Class Action Settlement was the result of a lengthy, mediated negotiation process, aided by a senior United States District Judge, which focused on achieving a resolution of these lawsuits that was both fair to the respective class members and which NNC could afford in order to remain as a viable and competitive company. The issuance of a substantial number of NNC's common shares under the Shareholder Class Action Settlement (representing approximately 14.5% of its current outstanding common equity) will provide class members with a stake in NNC's future performance and prospects.

64. The Shareholder Class Action Settlement was conditioned upon, among other things, final court approval by the respective courts in New York, Ontario, Québec and British Columbia where the class actions were filed and certified as class proceedings (the "Courts").

65. In October and November 2006, settlement approval hearings were held by each of the Courts, and each Court has since approved the settlement of its respective proceedings on the terms provided therefor in the Shareholder Class Action Settlement and has found such settlement to be fair, reasonable and adequate or fair, reasonable and in the best interest of the class as certified by such Court, as the case may be.

66. The Shareholder Class Action Settlement became final and effective on March 20, 2007.

(iii) Remedial Measures Undertaken or Planned by Nortel

67. When it initiated the Independent Review in October 2003, the Audit Committee wanted to understand, as a governance matter, how the errors arose and to adopt appropriate procedures and controls to eliminate the potential for similar errors. As it learned of the inappropriate provisioning practices in the Finance organization, the Audit Committee recognized that the corporate culture at Nortel required fundamental change, beginning with dramatic changes in the "tone at the top". Likewise, the Audit Committee recognized that existing processes and procedures had been inadequate, and that significant improvements and additional processes and controls were essential.

68. The Board insisted on a change in the "tone at the top" in the senior management of Nortel. The Board began the remediation process in April 2004 with the termination for cause of the then incumbent CEO, CFO and Controller. In August 2004, as the Independent Review progressed, the Board terminated for cause seven additional senior finance employees. The Board demanded the return of all bonus compensation that the ten terminated officers had received in 2003 and then directed Nortel to commence legal proceedings against the former CEO, CFO and Controller for this purpose.

69. Following the completion of the Second Restatement in 2005, the Board identified and retained new senior management, from outside Nortel, with, in the Board's assessment,

strong accounting and financial reporting skills and a proven record of integrity and ethical behaviour. The Board recruited a new CEO, CFO, Controller and Internal Auditor/Chief Compliance Officer and created the new position of Executive Vice-President, Corporate Operations, which it also filled with an external hire. It also recruited a new Chief Legal Officer on the retirement of his predecessor.

70. The Company has represented to Staff, and Staff accept, that the Audit Committee sought to analyze the root causes of the inappropriate provisioning conduct and accounting errors in order to understand the broad based remediation required to prevent a recurrence, to rebuild the corporate culture based on transparency and accountability, and to ensure sound financial reporting and comprehensive disclosure. The Audit Committee recommended to the Board a framework of remedial measures, which it grouped into three categories – people, processes and technology (the "Remedial Framework"). The Board adopted the Remedial Framework and directed management to develop measures for the implementation of that framework and to implement them.

71. Nortel has represented to Staff, and Staff accept, that management has implemented a broad range of remedial actions to implement the Remedial Framework, as more particularly detailed in Schedule "C" attached hereto.

72. The Company has also represented to Staff, and Staff accept, that Nortel has made significant improvements during 2006 to its Sarbanes-Oxley Act of 2002 ("SOX") compliance program. The structure of its SOX compliance team has been changed to improve communication and provide more integration with corporate and regional management, and the team's leadership maintains regular communication with Nortel's external auditors. An internal quality assurance function was established in 2006 to review documentation and testing strategies of all key internal controls. A SOX Steering Committee was established in 2006 comprised of members of the executive leadership team from all key functions. This committee meets regularly to discuss the progress of the SOX compliance program and review issues as required.

73. Consistent with guidance issued by the SEC, management has also undertaken a comprehensive redesign of its methodology of conducting assessments of the Company's

internal control over financial reporting and implemented a top-down, risk-based approach to identification of risks to reliable financial reporting and the related internal controls.

74. In connection with the preparation of NNC's and NNL's Annual Reports on Form 10-K for the year ended December 31, 2006 (collectively, the "2006 Annual Report"), the Company's management assessed the effectiveness of Nortel's internal control over financial reporting in accordance with the requirements of section 404 of SOX ("SOX 404") and concluded that one "material weakness" (as defined under the applicable standards of the PCAOB) in the Company's internal control over financial reporting existed as at December 31, 2006. The material weakness identified, and disclosed in the 2006 Annual Report, was a lack of sufficient cross-functional communication and coordination, including further definition of roles and responsibilities, with respect to the scope and timing of customer arrangements, insufficient segregation of duties in certain areas, delayed implementation of Nortel review processes and personnel for the Company's Korean joint venture, LG-Nortel Co. Ltd. ("LG-Nortel"), and insufficient controls over certain end user computing applications, all of which impact upon the appropriate application of U.S. GAAP to revenue generating transactions.

75. Specifically, as disclosed in the 2006 Annual Report, it was determined that the Company did not sufficiently and effectively communicate and coordinate between and among the various Finance and non-Finance organizations in a consistent manner across the Company on the scope and terms of customer arrangements, including the proper identification of all undelivered obligations that may impact upon revenue recognition, which deficiency was compounded by the complexity of the Company's customer arrangements, in order to ensure that related revenues were accurately recorded in accordance with U.S. GAAP. As well, management determined that the Company requires further definition of roles and responsibilities, and further enhancement of segregation of duties, in particular with respect to the front-end processes around customer arrangements and with respect to access to computer systems, to ensure these revenues are identified and recorded in a timely and accurate manner. With regards to LG-Nortel, which was formed in November 2005 and included in management's

assessment of internal control over financial reporting starting in January 2006, management determined that these deficiencies were compounded by delays in putting in place review processes and personnel with appropriate knowledge, experience and training in U.S. GAAP. Further, the Company utilizes various end user computing applications (for example, spreadsheets) to support accounting for revenue generating transactions, which are not sufficiently protected from unauthorized changes and sufficiently reviewed for completeness and accuracy.

76. Nortel has represented that, based on progress during 2006 and into 2007, the Company's goal is the remediation of the above-described material weakness during the course of 2007 and the full implementation of the remedial measures to implement the Remedial Framework. Nortel continues to identify, develop and implement remedial measures in light of management's assessment of the effectiveness of internal control over financial reporting, in order to strengthen internal control over financial reporting and disclosure controls and procedures, and to address the above-described material weakness in the Company's internal control over financial reporting as at December 31, 2006, as well as to ensure Nortel continues to sustain the remedial measures taken to address the recommendations set forth in the Independent Review Summary. For example, during the course of 2006, the Finance function in LG-Nortel was strengthened, including the installation of a new leader of this function. In addition, since December 31, 2006, Nortel has appointed an individual in its technical accounting group with the appropriate U.S. GAAP knowledge and experience to be fully dedicated to the review of the joint venture contracts on a timely basis, in accordance with Nortel's new contract review policy (described in the attached Schedule "C"). Further, new guidelines and training were developed by the Company in the second half of 2006 to improve revenue recognition processes. Additional training courses and tools for non-finance roles are currently being developed and deployed by the Company. Analysis of the Company's revenue related processes will continue during 2007 to identify key controls that should be added to these processes, in particular with respect to cross-functional interactions.

77. Nortel has outlined ongoing remediation plans to address the remaining actions to implement the Remedial Framework and to address the remaining material weakness in

its internal control over financial reporting, as outlined in the attached Schedule "D" (the "Remediation Plan").

78. Nortel has committed substantial financial and personnel resources to the remedial initiatives referred to herein. The Company estimates that the costs incurred by it to the date hereof relating to its remediation activities (including the costs of the Independent Review, the Revenue Independent Review, incremental external audit costs related to internal control remedial measures, and investments in the Company's Finance organization and processes) have exceeded $500 million.

V. TERMS OF SETTLEMENT

79. Nortel agrees to settle this matter on the basis of an Order:

1. approving this Settlement;

2. pursuant to sections 127(1)4 and 127(2) of the Act, that:

   (i) during the Reporting Period (as defined below), within 30 days of filing each of its quarterly and annual reports, Nortel will deliver to Staff a written report (a "Remediation Progress Report" or "Report") detailing its progress in implementing the Remediation Plan, as outlined in Schedule "D" attached hereto, and addressing the other matters described in Schedule "E" attached hereto. Remediation Progress Reports shall be delivered for the period commencing the first quarter-end after the Commission has approved this Settlement Agreement and ending the earlier of (a) the quarter-end after Nortel has remedied all material weaknesses in its internal control over financial reporting to the satisfaction of its external auditors, and (b) the date when Nortel has reported to Staff, to the reasonable satisfaction of Staff, that the Company has completed the implementation of the Remediation Plan (the "Reporting Period");

   (ii) Remediation Progress Reports shall be prepared substantially in accordance with the instructions in the reporting template attached as Schedule "E" hereto;

(iii) Remediation Progress Reports shall be signed by the CFO and Controller of the Company and will include confirmation that the Report has been reviewed by the Chief Compliance Officer and the Audit Committee and reflects their comments, if any, on the Report;

(iv) Staff shall be entitled to engage a third party expert or experts (the "Consultant"), acceptable to and at the expense of the Company, to assist Staff with their review and assessment of any Remediation Progress Report or Reports; and

(v) at the request of, and on reasonable notice from, Staff and/or the Consultant, representatives of the Company (including, where appropriate, the CFO, the Controller, the Chief Compliance Officer and/or the Chair of the Audit Committee) will meet with the Staff and/or the Consultant to discuss and answer questions on any Report; and

3. pursuant to section 127.1 of the Act, that Nortel make a payment to the Commission in the amount CDN $1,000,000 as a contribution towards the costs of the investigation.

VI. STAFF COMMITMENT

80. If this Settlement is approved by the Commission, Staff will not initiate any other proceeding under the Act against Nortel in relation to the facts set out in Part III of this Settlement Agreement.

81. If this Settlement is approved by the Commission and at any subsequent time Nortel fails to honour the terms of Settlement contained in paragraph 79 of this Settlement Agreement, Staff reserve the right to bring proceedings against Nortel based on the facts set out in Part III of this Settlement Agreement, and based on the breach of this Settlement Agreement.

VII. APPROVAL OF SETTLEMENT

82. Approval of the settlement set out in this Settlement Agreement shall be sought at a hearing of the Commission scheduled for May 22, 2007 at 11:00 a.m. or such other date and time as may be agreed to by Staff and Nortel (the "Settlement Hearing"). Representatives of Nortel will attend the Settlement Hearing.

83. Counsel for Staff or Nortel may refer to any part, or all, of this Settlement Agreement at the Settlement Hearing. Staff and Nortel agree that this Settlement Agreement will constitute the entirety of the evidence to be submitted at the Settlement Hearing.

84. If this Settlement is approved by the Commission, Nortel agrees to waive its rights to full hearing, judicial review or appeal of the matter under the Act.

85. Staff and Nortel agree that if this Settlement is approved by the Commission, subject to paragraph 4 above and without limiting in any way Nortel's ability to make full answer and defence in, or enter into settlements with respect to, any civil, criminal or other proceeding, Nortel will not make any public statement inconsistent with this Settlement Agreement.

86. If, for any reason whatsoever, this Settlement is not approved by the Commission, or any order in the form attached as Schedule "A" is not made by the Commission:

(i) this Settlement Agreement and its terms, including all discussions and negotiations between Staff and Nortel leading up to their presentation at the Settlement Hearing, shall be without prejudice to Staff and Nortel;

(ii) Staff and Nortel shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations in the Notice of Hearing and Statement of Allegations of Staff, unaffected by this Settlement Agreement or the settlement discussions/negotiations;

(iii) the terms of this Settlement Agreement will not be referred to in any subsequent proceeding, or disclosed to any person, except with the written consent of Staff and Nortel or as may be required by law; and

(iv) Nortel agrees that it will not, in any proceeding, refer to or rely upon this Settlement Agreement, the settlement discussions/negotiations or the process of approval of this Settlement Agreement as the basis for any attack on the Commission's jurisdiction, alleged bias or appearance of bias, alleged unfairness or any other remedies or challenges that may otherwise be available.

87. Except as required by its terms, this Settlement Agreement will be treated as confidential by the Commission until approved, and forever if, for any reason whatsoever, the Settlement Agreement is not approved by the Commission, except with the written consent of Staff and Nortel or as may be required by law.

88. Any obligations of confidentiality with respect to this Settlement Agreement shall terminate upon approval of this Settlement by the Commission.

VIII. EXECUTION OF SETTLEMENT AGREEMENT

89. This Settlement Agreement may be signed in one or more counterparts that together shall constitute a binding agreement.

90. A facsimile copy of any signature shall be as effective as an original signature.

DATED this 16th day of May, 2007

NORTEL NETWORKS CORPORATION

By: ______________________________

Name: Mike S. Zafirovski

Title: President and Chief Executive Officer

By: ______________________________

Name: Gordon A. Davies

Title: Chief Legal Officer and Corporate Secretary

NORTEL NETWORKS LIMITED

By: ______________________________

Name: Mike S. Zafirovski

Title: President and Chief Executive Officer

By: ______________________________

Name: Gordon A. Davies

Title: Chief Legal Officer and Corporate Secretary

DATED this 16th day of May, 2007

STAFF OF THE ONTARIO SECURITIES COMMISSION

By: ______________________________

Name: Michael J. Watson

Title: Director of Enforcement

SCHEDULE "A"

IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c. S.5, AS AMENDED

- and -

IN THE MATTER OF
NORTEL NETWORKS CORPORATION and NORTEL NETWORKS LIMITED
(collectively, "Nortel")

ORDER
(Sections 127 and 127.1)

WHEREAS the Ontario Securities Commission (the "Commission") issued a Notice of Hearing dated May 16, 2007 pursuant to sections 127 and 127.1 of the Securities Act, R.S.O. 1990, c. S.5, as amended (the "Act") announcing that it proposed to consider a settlement agreement entered into by Nortel and Staff of the Commission;

AND WHEREAS on May 16, 2007 Staff of the Commission filed a Statement of Allegations in respect of Nortel;

AND WHEREAS Nortel entered into a settlement agreement dated May 16, 2007 (the "Settlement Agreement") with Staff of the Commission in relation to the matters set out in the Statement of Allegations;

AND UPON reviewing the Settlement Agreement, the Notice of Hearing and the Statement of Allegations, and upon considering submissions of Nortel and of Staff of the Commission;

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this Order;

IT IS HEREBY ORDERED THAT:

1. the Settlement Agreement is approved;

2. pursuant to sections 127(1)4 and 127(2) of the Act:

   (i) during the Reporting Period (as defined below), within 30 days of filing each of its quarterly and annual reports, Nortel shall deliver to Staff of the Commission a written report (a "Remediation Progress Report" or

"Report") detailing its progress in implementing the Remediation Plan, as outlined in Schedule "A" to this Order [Schedule "D" to the Settlement Agreement], and addressing the other matters described in Schedule "B" to this Order [Schedule "E" to the Settlement Agreement]. Remediation Progress Reports shall be delivered for the period commencing the first quarter-end after the date of this Order and ending the earlier of (a) the quarter-end after Nortel has remedied all material weaknesses in its internal control over financial reporting to the satisfaction of its external auditors, and (b) the date when Nortel has reported to Staff of the Commission, to the reasonable satisfaction of Staff, that Nortel has completed the implementation of the Remediation Plan (the "Reporting Period");

(ii) Remediation Progress Reports shall be prepared substantially in accordance with the instructions in the reporting template attached as Schedule "B";

(iii) Remediation Progress Reports shall be signed by the Chief Financial Officer and the Controller of Nortel and will include confirmation that the Report has been reviewed by the Chief Compliance Officer and the Audit Committee of Nortel and reflects their comments, if any, on the Report;

(iv) Staff of the Commission shall be entitled to engage a third party expert or experts (the "Consultant"), acceptable to and at the expense of Nortel, to assist Staff with their review and assessment of any Remediation Progress Report or Reports; and

(v) at the request of, and on reasonable notice from, Staff of the Commission and/or the Consultant, representatives of Nortel (including, where appropriate, the Chief Financial Officer, the Controller, the Chief Compliance Officer and/or the Chair of the Audit Committee of Nortel) will meet with the Staff and/or the Consultant to discuss and answer questions on any Report; and

3. pursuant to section 127.1 of the Act, Nortel shall make a payment to the Commission in the amount CDN $1,000,000 as a contribution towards the costs of the investigation.

Dated at Toronto, Ontario this _____ day of ___________, 2007

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SCHEDULE "B"

SUMMARY OF FINDINGS AND OF RECOMMENDED REMEDIAL MEASURES OF THE INDEPENDENT REVIEW

SUBMITTED TO THE AUDIT COMMITTEE OF THE BOARDS OF DIRECTORS OF NORTEL NETWORKS CORPORATION AND NORTEL NETWORKS LIMITED

Wilmer Cutler Pickering Hale and Dorr LLP
2445 M Street, N.W.
Washington, D.C. 20037

Huron Consulting Services LLC
99 High Street
Boston, Massachusetts 02110

In late October 2003, Nortel Networks Corporation ("Nortel" or the "Company") announced that it intended to restate approximately $900M of liabilities carried on its previously reported balance sheet as of June 30, 2003, following a comprehensive internal review of these liabilities ("First Restatement"). The Company stated that the principal effects of the restatement would be a reduction in previously reported net losses for 2000, 2001, and 2002 and an increase in shareholders' equity and net assets previously reported on its balance sheet. Concurrent with this announcement, the Audit Committees of the Boards of Directors of Nortel Networks Corporation and Nortel Networks Limited (collectively, the "Audit Committee" and the "Board of Directors" or "Board," respectively) initiated an independent review of the facts and circumstances leading to the First Restatement. The Audit Committee wanted to gain a full understanding of the events that caused significant excess liabilities to be maintained on the balance sheet that needed to be restated, and to recommend that the Board of Directors adopt, and direct management to implement, necessary remedial measures to address personnel, controls, compliance, and discipline. The Audit Committee engaged Wilmer Cutler Pickering Hale and Dorr LLP ("WCPHD") to advise it in connection with its independent review. Because of the significant accounting issues involved in the inquiry, WCPHD retained Huron Consulting Services LLC ("Huron") to provide expert accounting assistance. Huron has been involved in all phases of WCPHD's work.

Scope of the Independent Review

The independent review focused initially on events relating to the establishment and release of contractual liability and other related provisions (also called accruals, reserves, or accrued liabilities) in the second half of 2002 and the first half of 2003, including the involvement of senior corporate leadership. (The review did not include provisioning activity in the first half of 2002 because it was not expected that any such activity could have had a material impact on the results of those quarters in light of the significant losses in those periods.) As the review evolved, its focus broadened to include specific provisioning activities in each of the business units and geographic regions. In light of concerns raised in the initial phase, the Audit Committee expanded the review to include provisioning activities in the third and fourth quarters of 2003.

The Audit Committee expressly directed that requested documents be promptly provided and that employees cooperate with requests for interviews; the Audit Committee instructed senior management to implement these directions throughout the Company. Over the course of the inquiry, more than 50 current and former Nortel employees were interviewed, some more than once. While the independent inquiry did not examine the work of Nortel's external auditor, Deloitte & Touche LLP, several current and former audit engagement partners were interviewed. Hundreds of thousands of hard copy and electronic documents and emails were collected and reviewed from corporate headquarters in Brampton, from company servers, and from key employees in the business units and in the regions.

It was beyond the scope of the independent inquiry to audit or otherwise review the substantive accuracy of Nortel's restated financial statements. As the inquiry progressed, the Audit Committee directed new corporate management to examine in depth the concerns identified by WCPHD regarding provisioning activity and to review provision releases in each of the four quarters of 2003, down to a low threshold. That examination, and other errors identified by management, led to a second restatement of financial results, filed today (the "Second Restatement"). WCPHD and Huron played no role in management's restatement efforts. It was also beyond the scope of the independent inquiry to review other aspects of Nortel's accounting practices. The Second Restatement addresses a number of these practices.

WCPHD and Huron reported regularly to the Audit Committee on the progress of the investigation. Most, or all, of the independent and non-management Board members attended these Audit Committee briefings. The Chairs of the Audit Committee and of the Board of Directors were briefed between Audit Committee meetings to provide them with a "real time" understanding of the progress of the investigation. At the direction of the Audit Committee, WCPHD and Huron met regularly with new management and the Company's external auditors to provide facts developed through the inquiry, so both would have this information as they proceeded through the Second Restatement. WCPHD and Huron also briefed Canadian and U.S. regulators on a regular basis. The Audit Committee has reviewed in detail the findings of the independent review and the recommended remedial measures, and it has adopted those findings and proposed remedial measures in their entirety. This synopsis summarizes those findings and proposed remedial measures.

Summary of Findings of the Independent Review

The investigation necessarily focused on the financial picture of the Company at the time that decisions were made and actions were taken regarding provisioning activity. Because of significant changes to financial results reflected in the Second Restatement, the restated financial results differ from the historical results that formed the backdrop for this inquiry.

In summary, former corporate management (now terminated for cause) and former finance management (now terminated for cause) in the Company's finance organization endorsed, and employees carried out, accounting practices relating to the recording and release of provisions that were not in compliance with U.S. generally accepted accounting principles ("U.S. GAAP") in at least four quarters, including the third and fourth quarters of 2002 and the first and second quarters of 2003. In three of those four quarters -- when Nortel was at, or close to, break even -- these practices were undertaken to meet internally imposed pro-forma earnings before taxes ("EBT") targets. While the dollar value of most of the individual provisions was relatively small, the aggregate value of the provisions made the difference between a profit and a reported loss, on a pro forma basis, in the fourth quarter of 2002 and the difference between a loss and a reported profit, on a pro forma basis, in the first and second quarters of 2003. This conduct caused Nortel to report a loss in the fourth quarter of 2002 and to pay no employee bonuses, and to achieve and maintain profitability in the first and second quarters of 2003, which, in turn, caused it to pay bonuses to all Nortel employees and significant bonuses to senior management under bonus plans tied to a pro forma profitability metric.

The failure to follow U.S. GAAP with respect to provisioning can be understood in light of the management, organizational structure, and internal controls that characterized Nortel's finance organization. These characteristics, discussed below, include:

- Management "tone at the top" that conveyed the strong leadership message that earnings targets could be met through application of accounting practices that finance managers knew or ought to have known were not in compliance with U.S. GAAP and that questioning these practices was not acceptable;
- Lack of technical accounting expertise which fostered accounting practices not in compliance with U.S. GAAP;
- Weak or ineffective internal controls which, in turn, provided little or no check on inaccurate financial reporting;
- Operation of a complicated "matrix" structure which contributed to a lack of clear responsibility and accountability by business units and by regions; and
- Lack of integration between the business units and corporate management that led to a lack of transparency regarding provisioning activity to achieve internal EBT targets.

Nortel posted significant losses in 2001 and 2002 and downsized its work force by nearly two-thirds. The remaining employees were asked to undertake significant additional responsibilities with no increase in pay and no bonuses. The Company's former senior corporate management asserted, at the start of the inquiry, that the Company's downturn, and concomitant downsizing of operations and workforce, led to a loss of documentation and a decline in financial discipline. Those factors, in their view, were primarily responsible for the significant excess provisions on the balance sheet as of June 30, 2003, which resulted in the First Restatement. While that downturn surely played a part in the circumstances leading to the First Restatement, the root causes ran far deeper.

When Frank Dunn became CFO in 1999, and then CEO in 2001, he drove senior management in his finance organization to achieve EBT targets that he set with his senior management team. The provisioning practices adopted by Dunn and other finance employees to achieve internal EBT targets were not in compliance with U.S. GAAP, particularly Statement of Financial Accounting Standards Number 5 ("SFAS 5"). SFAS 5, which governs accounting for contingencies, requires, among other things, a probability analysis for each risk before a provision can be recorded. It also requires that a triggering event -- such as resolution of the exposure or a change in estimate -- occur in the quarter to warrant the release of a provision. Dunn and other finance employees recognized that provisioning activity -- how much to reserve for a particular exposure and when that reserve should be released -- inherently involved application of significant judgment under U.S. GAAP. Dunn and others stretched the judgment inherent in the provisioning process to create a flexible tool to achieve EBT targets. They viewed provisioning as "a gray area." They became comfortable with the concept that the value of a provision could be reasonably set at virtually any number within a wide range and that a provision release could be justified in a number of quarters after the quarter in which the exposure, which formed the basis for the provision, was resolved. Dunn and others exercised their judgment strategically to achieve EBT targets.

<u>**Third quarter, 2002**</u>. At the direction of then-CFO Doug Beatty, a company-wide analysis of accrued liabilities on the balance sheet was launched in early August 2002. The CFO and the Controller, Michael Gollogly, learned that this analysis showed approximately $303M in provisions that were no longer required and were available for release. The CFO and the Controller, each a corporate officer, knew, or ought to have known, that excess provisions, if retained on the balance sheet, would cause the Company's financial statements to be inaccurate and that U.S. GAAP would have required either that such provisions be released in that period and properly disclosed, or that prior period financial statements be restated. Instead, they permitted finance employees in the business units and in the regions to release excess accruals into income over the following several quarters. They acted in contravention of U.S. GAAP by failing to correct the Company's financial statements to account for the significant excess accrued liabilities. Neither the CFO nor the Controller advised the Audit

Committee and/or the Board of Directors that significant excess provisions on the balance sheet had been identified and that the Company's financial statements might be inaccurate, nor did either suggest such information should be disclosed in the Company's financial statements.

As a result of this company-wide review, senior finance employees recognized that their respective business unit or region had excess provisions on Nortel's balance sheet, and directed other finance employees to track these excess provisions. Nortel finance employees had their own distinct term for a provision on the balance sheet that was no longer needed -- it was "hard." Each business unit developed, in varying levels of detail and over varying periods of time, internal "hardness" schedules that identified provisions that were no longer required and were available for release. Finance employees treated provisions identified on these schedules as a pool from which releases could be made to "close the gap" between actual EBT and EBT targets in subsequent quarters.

<u>Fourth quarter, 2002</u>. By mid-2002, employees throughout the Company were being recruited by other companies and morale was low. Corporate management sought to retain these employees but recognized that other public companies had come under criticism for awarding "stay" bonuses in the face of enormous losses. At management's recommendation, the Board determined to reward employees with bonuses under bonus plans tied to profitability. One plan, the Return to Profitability ("RTP") bonus, contemplated a one-time bonus payment to every employee, save 43 top executives, in the first quarter in which the Company achieved pro forma profitability. The 43 executives were eligible to receive 20% of their share of the RTP bonus in the first quarter in which the Company attained profitability, 40% after the second consecutive quarter of cumulative profitability, and the remaining 40% upon four quarters of cumulative profitability. In order for the RTP bonuses to be paid, pro forma profits had to exceed, by at least one dollar, the total cost of the bonus for that quarter. Another plan, the Restricted Stock Unit ("RSU") plan, made a significant number of share units available for award by the Board to the same 43 executives in four installments tied to profitability milestones. Once a milestone was met, the Board had discretion whether to make the award.

Through the first three quarters of 2002, Nortel experienced significant losses, and management reported to the Board that it expected losses would continue in the fourth quarter. After the initial results for the business units and regions were consolidated, they showed that Nortel unexpectedly would achieve pro forma profitability in the fourth quarter. Frank Dunn, who had been promoted to CEO in 2001, understood that profitability had been attained from an operational standpoint but determined that it was unwise to report profitability and pay bonuses in the fourth quarter because performance for the rest of the year had been poor. He determined that provisions should be taken to cause a loss for the quarter. Over a two day period late in the closing process, the CFO and the Controller worked with employees in the finance organizations in the business units, the regions, and in global operations, to identify and record additional provisions totaling more than $175 million. All of these provisions were recorded "top-side" -- that is, by employees in the office of the Controller based on information provided by the business units, regions and global operations -- because of the late date in the closing process on which they were made. Nortel's results for the fourth quarter of 2002 turned from an unexpected profit into the loss previously forecasted by management to the Board of Directors. Neither the CEO, the CFO, nor the Controller advised the Audit Committee and/or the Board of Directors of this concerted provisioning activity to improperly turn a profit into a loss. Nortel has since determined that many of these provisions were not recorded in compliance with U.S. GAAP, and has reversed those provisions in the Second Restatement. The loss then reported by Nortel in the fourth quarter meant that no employee bonuses were paid for that quarter.

<u>First quarter, 2003</u>. While Nortel had announced publicly that it expected to achieve pro forma profitability in the second quarter of 2003, Dunn told a number of employees that he intended to achieve profitability one quarter earlier, and he established internal EBT targets for each business unit and for corporate to reach that goal. At Dunn's direction, "roadmaps" were developed to show how the targets could be achieved. These roadmaps made clear that the internal EBT targets for the quarter could only be met through release from the balance sheet of excess provisions that lacked an accounting trigger in the quarter. At the request of finance management in each business unit, finance employees identified excess, or "hard," provisions from the balance sheet, and, together, they determined which provisions to release to close the gap and meet the internal EBT targets. That release activity was supplemented by releases, directed by the CFO and by the Controller, of excess corporate provisions that had been identified in the third quarter of 2002 as available for release. Releases of provisions by corporate and by each business unit and region, including excess provisions, totaling $361M, enabled Nortel to show a consolidated pro forma profit in the first quarter, notwithstanding that its operations were running at a loss. The Finance Vice Presidents of the business units and two of the three regions, the Asia Controller, the CFO, the Controller, and the CEO knew, or ought to have known, that U.S. GAAP did not permit the release, without proper justification, of excess provisions into the income statement. Nortel has since determined that many of these releases in this quarter were not in accordance with U.S. GAAP, and has reversed those releases in the First and Second Restatements and restated the releases into proper quarters.

When presenting the preliminary results for the quarter to the Audit Committee, the Controller inaccurately represented that the vast majority of these releases were "business as usual" and in compliance with U.S. GAAP, and that the remaining releases were one time, non-recurring events and in compliance with U.S. GAAP. Further, the CFO and the Controller failed to advise the Audit Committee and/or the Board of Directors that release of excess corporate provisions was required to achieve profitability and make up for the shortfall in operational results; that such releases were needed to cover the cost of the bonus compensation; that no event in the quarter triggered the releases (as required by U.S. GAAP); that the releases implicated Staff Accounting Bulletin 99 (relating to materiality) because they turned a loss for the quarter into a profit; and that they retained a significant amount of excess provisions on the balance sheet to be used, when needed, in a subsequent quarter. In separate executive sessions held by the Audit Committee with the CFO and the Controller, neither the CFO nor the Controller raised quality of earnings issues nor questioned the payment of the RTP bonus. Based on management's representations, the Audit Committee approved the quarterly results, and the Board approved the award of the RTP bonus.

Second quarter, 2003. Seeking to continue to show profitability in the second quarter and meet the first RSU milestone and the second tranche of the RTP bonus, senior corporate management developed internal EBT targets to achieve pro forma profitability. As was the case in the first quarter, it became clear during the quarter that operational results would be a loss. At the request of finance management in each business unit, finance employees again identified "hard" provisions from the balance sheet, and, together, they determined which provisions to release to close the gap and achieve the internal EBT targets. Nortel has since determined that many of these releases were not in accordance with U.S. GAAP, and has reversed those releases in the First and Second Restatements and restated the releases into proper quarters. In both the first and second quarters of 2003, the dollar value of many individual releases was relatively small, but the aggregate value of the releases made the difference between a pro forma loss and profit in each quarter.

The CEO, the CFO and the Controller failed to advise the Audit Committee or the Board of Directors that operations of the business units were running at a loss during the second quarter and that the validity of many of the numerous provision releases, totaling more than $370 million, could be questionable. Based on management's representations, the Audit Committee approved the quarterly results, and the Board approved payment of the second tranche of the RTP bonus and awarded restricted stock under the RSU plan.

Third and fourth quarters, 2003. In light of concerns raised by the inappropriate accounting judgments outlined above, the Audit Committee expanded its investigation to determine whether excess provisions were released to meet internal EBT targets in each of these two quarters. No evidence emerged to suggest an intent to release provisions strategically in those quarters to meet EBT targets. Given the significant volume of provision releases in these two quarters, the Audit Committee directed management to review provision releases, down to a low threshold, using the same methods used to evaluate the releases made in the first half of the year. This review has resulted in additional adjustments for these quarters, which are reflected in the Second Restatement.

Governing Principles for Remedial Measures

The Audit Committee asked WCPHD to recommend governing principles, based on its independent inquiry, to prevent recurrence of the inappropriate accounting conduct, to rebuild a finance environment based on transparency and integrity, and to ensure sound financial reporting and comprehensive disclosure. The recommendations developed by WCPHD and provided to the Audit Committee were directed at:

- 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 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.

These recommendations were grouped into three categories – people, processes and technology – and are discussed below:

- People

An effective "tone at the top" requires effective policies and procedures, but these alone are not sufficient. Those who manage and lead the Company, and are its officers, must exercise the highest fiduciary duties to the Company and shareholders and must be accountable, both to corporate management and the Board, for accurately reporting financial results.

Based on periodic reports by WCPHD on the progress of the independent inquiry, the Audit Committee recommended, and the Board of Directors approved, termination for cause of the CEO, the CFO, the Controller, and seven additional senior finance employees. The Board of Directors determined that each of these individuals had significant responsibilities for Nortel's financial reporting as a whole, or for their respective business units and geographic regions, and that each was aware, or ought to have been aware, that Nortel's provisioning activity, described above, did not comply with U.S. GAAP. Nortel has formally demanded the return of all bonus compensation paid to each of these individuals in 2003. Once the Board receives responses to this demand, it should determine the appropriate course of action to pursue with each of these ten former employees.

Senior corporate officers, including the four Presidents of the business units during the period covered by this inquiry, the four Presidents of the regions, and the President of Global Operations, now recognize that inappropriate activity involving provisioning occurred "on their watch." While they lacked an understanding that certain provisioning activities in their respective business units were not in compliance with U.S. GAAP, they now recognize that such conduct was instrumental in achieving the reported results in the fourth quarter of 2002 and the first and second quarters of 2003. To demonstrate personal commitment to the governing principles stated above and to lead the Company forward, each of these officers has volunteered to return to the Company the entire RTP bonus that he or she was awarded, net of taxes already paid, and to disclaim any opportunity to receive the third and fourth installments of the RSU bonus, which the Board has accepted. In light of the Board's expectation that senior employees of the Company will lead by example, the Board should decline to award the third and fourth tranches of the RSU plan to the remaining eligible employees, irrespective of whether the profitability metrics for such bonuses are met as a result of the Second Restatement.

The Board of Directors must make clear that it has not tolerated, and will not in the future tolerate, accounting conduct that involves the misapplication of U.S. GAAP. It must further communicate its expectation that every Nortel employee will adhere to the highest ethical standards; will have training and experience commensurate with his or her job responsibilities; and will be held accountable for his or her actions and decisions. The Board of Directors and management should continue to address the issues associated with the inappropriate use of provisions.

Recent experience has shown that the Nortel finance organization lacks sufficient technical accounting expertise. Many finance employees are "career" Nortel employees and learned accounting at Nortel. Whatever basic accounting knowledge is resident within Nortel is largely knowledge of Canadian GAAP, not U.S. GAAP. Nortel reported in accordance with Canadian GAAP until 2000, when it switched to reporting in accordance with U.S. GAAP. High quality finance employees are critical to the soundness of the Company's financial reporting systems and controls so that the results of operations are reported accurately and in a timely manner. The Board of Directors should direct management to recruit, from outside Nortel, individuals with strong accounting and financial reporting skills and a proven record of integrity and ethical behavior to fill key finance positions. The Board should also direct management to review the training and experience of Nortel mid-level finance employees and to supplement this expertise, where appropriate, by hiring individuals from outside Nortel with strong accounting training and background.

Nortel has long had an internal "technical accounting group" to which finance employees were supposed to turn for resolution of difficult accounting questions and for technical accounting interpretations. While this practice is a sound one, the practical application has fallen short. Finance employees did not regularly turn to this group for resolution of an issue, and it was far from clear that this group had the "last word" on such issues. That technical accounting group should be led by a very senior finance executive with in-depth knowledge of, and experience in applying, U.S. GAAP. Management should be directed to conduct a benchmarking study to evaluate whether the technical accounting group is properly organized; its personnel component is consistent with other similar companies; its staff has appropriate and current expertise; and its authority to resolve accounting issues and technical interpretations is clearly defined within the organization.

Notwithstanding the enormous time and resources that the Company has devoted to restatement activities for the past year, many employees appear to lack a clear understanding of the accounting issues that gave rise to the restatements. That is perhaps not surprising in light of the lack of basic U.S. GAAP training and expertise in the finance organization. Management has taken significant steps to remedy this deficit by requiring mandatory training, developed by external consultants, and taught by knowledgeable finance employees. These remedial training programs are an important first step, but much more must be done to ensure that the finance organization is fluent in governing accounting standards and principles. Widespread training, by outside experts, at all levels of the finance organization, must continue so that all finance employees receive comprehensive training in U.S. GAAP and in the consequences of failing to follow U.S. GAAP. Going forward, management should develop in depth, on-going continuing education programs that explain continuously evolving complex accounting standards. Management should assess the staffing of its training organization, and the adequacy of its trainers. Every Nortel employee, including each finance employee, must now acknowledge annually, in writing, that he or she has read Nortel's code of conduct and will adhere to that code. The certification for each finance employee should be expanded to include an acknowledgement that each such employee is familiar with all applicable U.S. GAAP requirements. In addition, the Board should consider whether each finance employee should be required to complete a certain number of hours of continuing professional education each year.

- Processes

A basic component of sound corporate oversight is the control structure. Internal controls -- the Company's accounting policies, organizational structure, systems, processes, employees, leadership, and culture -- working together, foster accurate financial reporting and sound disclosure in a timely manner. While management has recognized weaknesses in existing processes and controls, and has taken steps to remedy these deficiencies, more needs to be done.

Nortel is a multi-national organization that has changed organizational structure over the past several years. One legacy of this changing structure is a matrix organization in which there is no clear assignment of responsibility for assessing the adequacy and usage of contractual liability provisions; even where responsibility is clear, it is unlikely that sufficient monitoring is in place to make sure that provisioning activity is in accord with U.S. GAAP. The need for the matrix organization must be re-examined in light of the risks that it poses to financial discipline and accountability and, if a matrix structure continues to be used, clear accountability must be established.

Historically, finance employees responsible for meeting EBT targets had authority to record and release provisions. That practice must end immediately. The control organization must have sole authority to make these decisions and record these entries. The Board of Directors must insist that the re-engineering of the control organization be a management priority. In addition, the Controller and the control organization, working with the General Counsel, must develop standards of transparency in financial reporting that meet both the letter and the spirit of legal requirements.

Nortel's written accounting policies must be reviewed and, where necessary, rewritten to ensure strict adherence to U.S. GAAP and provide numerous "real life" examples of practical applications. Procedures must be adopted to identify evolving interpretations of accounting standards and best practices under U.S. GAAP and to develop and conform Nortel's policies in a timely manner. Employees charged with responsibility for Nortel's accounting policies must have substantial knowledge of the strengths and weaknesses of the financial organization and knowledge of best practices in similarly situated companies and ensure that accounting practices follow Nortel's policies. These policies must be communicated to finance and control employees, and management must stress the importance of adherence to the policies and impose sanctions if they are not followed.

The internal audit function must be strengthened and must provide an independent check on the integrity of financial reporting. Historically, Nortel's internal auditor focused solely on "operational" reviews and had no role in determining whether Nortel's accounting policies were in compliance with U.S. GAAP or in evaluating whether these policies were properly applied. The Audit Committee has already established new priorities for the internal auditor relating to the evaluation of risk exposures for financial reporting. Internal audit should continue its practice of proposing an annual work plan, and should ensure that the work plan focuses on the new priorities set by the Audit Committee. The Company is currently conducting a search to fill the vacant position of internal auditor. The internal audit function requires a leader with substantial experience in applying U.S. GAAP in a similarly-situated company and great familiarity in applying professional standards issued by the Institute of Internal Auditors. The internal auditor should report to the CEO to remove any potential threat to independence. The internal auditor should continue to have direct and regular access to the Board and the Audit Committee. Staffing of internal audit must be consistent with its mandate.

These governing principles are an effort to forge a framework for rebuilding the Nortel finance environment. Equally important, the Board, the CEO, and the CFO must continue to promote high ethical standards throughout the Company. Words announcing adherence to the highest standard of integrity are relatively easy to express, but it is actions, not words, that count. The Board has established the position of a Chief Ethics and Compliance Officer. The Board has also adopted a code of ethical conduct and business practices which outlines principles to guide ethical decision-making and provides practical answers to ethics questions regularly asked in the workplace. The Board should direct management to enhance significantly the existing compliance program. Together, the code and a strengthened compliance program set the tone and the standards of behavior that the Company expects from its employees. Employees must be convinced of the Company's commitment to an ethical climate, and of the central role that they play in ensuring that the Company's code is followed. They must view compliance with the Company's code of conduct, standards, and control systems as a central priority, and understand they will be rewarded for ethical behavior, even if it uncovers some problem that others might prefer to remain undisclosed. On a regular basis, the Board should review the activities of the compliance office, the strength of the compliance program, and the risks it has addressed.

The Board must receive from management, in sufficient time prior to meetings, all materials necessary for it to monitor and act on business risks affecting Nortel and information relating to decisions the Board is being asked to make. The Audit Committee needs clear and concise information relating to Nortel's financial reporting. The Board should implement a process whereby management would provide a quarterly assessment of the overall quality and transparency of Nortel's financial reporting and suggestions for improvements in form and content, which the external auditors would review and comment. The Board's practice of receiving all information respecting Nortel's financial performance on a consolidated basis, and of each of its business units, only from the CFO should change. The heads of each business unit should be expected to take full responsibility for the financial results of their respective businesses and to provide quarterly presentations to the Board with the senior finance employee in that business unit. Periodically, the Audit Committee should have separate, executive sessions with the chief operations and finance employees for each business unit to discuss issues specific to their businesses.

- Technology

Management has announced that it intends to acquire and install a SAP information technology platform to facilitate production of accurate financial results in a timely and cost effective manner. The objectives of any technology platform implemented by Nortel should include identification of existing control procedures that are redundant or inefficient; prevention/detection and correction of errors on a timely basis; prevention or detection of fraud; simplification of systems and increased productivity; reduction of opportunities for manual intervention; ability to trace transactions from start to finish; improved operation of controls; and substantive analysis of results, including both operating and financial metrics. In sum, those responsible for implementing SAP should have a strong focus on re-engineering existing processes so that the control elements intrinsic to the SAP system are effective.

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After thorough consideration, the Audit Committee has recommended, and the Board of Directors has approved, adoption of each of these recommendations. The Board of Directors has directed management to develop a detailed plan and timetable for the implementation of these recommendations and intends to monitor the implementation of these principles by management.

* * * * * * [End of Independent Review Summary]

SCHEDULE "C"

REMEDIAL ACTIONS REFERRED TO IN PARAGRAPH 71 OF THE SETTLEMENT AGREEMENT DATED MAY 16, 2007 BETWEEN STAFF OF THE ONTARIO SECURITIES COMMISSION AND NORTEL NETWORKS CORPORATION AND NORTEL NETWORKS LIMITED.

People:

(i) New executive management has communicated, in multiple ways, consistently and frequently, its expectation to Nortel employees that all employees will be held accountable for their conduct. In connection with the inappropriate provisioning and revenue recognition practices identified by the independent inquiries, appropriate disciplinary sanctions were developed by management based on the individual conduct and knowledge of employees that were involved in these practices. After evaluating individual conduct and knowledge, management has taken further employee disciplinary actions in 2006.

(ii) Recognizing that Nortel needed to "turn a new page" with new operational leaders, in November 2005 the four individuals who headed the business units in 2002 and 2003 and the individual who headed Nortel's Global Operations unit during the same period left the Company.

(iii) Management has made significant progress in upgrading the skill sets and experience of the Company's Finance organization, both through external hires and through remedial and on-going training of current employees, and including the establishment of a new senior Finance management team and appointment of a Controller with extensive experience in U.S. GAAP. From January 1, 2004 to December 31, 2006, the Company filled 673 positions with external hires (476 in Control and 197 in Financial Planning & Analysis ("FP&A")), of which 168 (142 in Control and 26 in FP&A) are certified public accountants. In 2005, the CFO reviewed the job requirements of every vacancy and new position in the Finance organization to ensure that candidates would have the appropriate skill sets, experience and professional designations for each such position. Starting in 2006, Finance leaders are required to review and approve the job requirements of every vacancy and new position. As well, the Finance organization has supplemented its capacity by retaining outside experts on a temporary or project basis.

(iv) Through its Global Finance Training and Communications ("GFTC") group, which reports to the Assistant Controller, Nortel has developed and offered (on a mandatory basis for targeted employee populations in 2006) remedial and ongoing training in areas of financial accounting that were found to be problematic in the restatements, including provisions and accruals, revenue recognition, foreign exchange and finance ethics. These training programs include the following:

- since 2004, a one-day mandatory training program for Finance employees related to provisioning focusing on SFAS No. 5 and expense accruals under U.S. GAAP. As of December 31, 2006, 1,373 Finance employees (representing approximately 89% of the 1,539 Finance personnel designated to take this mandatory training) have successfully completed the course.

- implemented in 2006, a supplemental training session on provisions accounting based on learnings and specific case study examples from the Company's restatements which is mandatory for all Control employees with authority to approve manual journal entry transactions. As of December 31, 2006, 75 Control employees (representing approximately 70% of the 107 Control employees designated to take this mandatory training) have successfully completed the course.

- a comprehensive three-day revenue recognition training program, which was made mandatory in 2006 for a targeted population of FP&A and Control employees. As of December 31, 2006, 568 FP&A and Control employees (representing approximately 87% of the 650 FP&A and Control employees designated to take this mandatory training) have successfully completed the course.

Nortel retained third party resources and expertise as it considered appropriate to assist with the development and delivery of these training programs. In addition, an Executive Global Finance Training Council has been established to oversee and set priorities for training for Finance employees in accordance with a new Finance training policy, which details minimum annual training requirements (by level) for all Finance employees. In addition to direct feedback from the Executive Finance Training Council (including direction from the Assistant Controller who is a member of the Council), the GFTC group identifies on-going training needs through a variety of sources such as: (i) recommendations from the Company's technical accounting function relative to queries received and errors identified on a consistent basis as well as emerging issues and new accounting guidance; and (ii) informal feedback from other Finance leaders. As new accounting guidance, pronouncements and directives on U.S. GAAP are promulgated, the Controller and other members of the GFTC group now provide quarterly training and updates, by webcast. Further, Nortel is in the process of developing a Competency and Training Model to define the necessary skill sets for key positions and accompanying training requirements in FP&A and Control. In this connection, Nortel surveyed its Finance leadership team to identify core skills required to successfully perform certain Finance roles and compared the identified skills with its existing training curriculum. The Competency and Training Model will be used to facilitate employee development, evaluate candidates for vacant positions, provide guidelines on mandatory and elective training requirements, and further develop and refine the GFTC group's priorities.

(v) The Company initially created separate Offices of Ethics and Compliance, and in November 2006 combined these functions, which include Internal Audit and Security, under the responsibility of the Chief Compliance Officer. Nortel believes that this new structure will allow for more effective coordination of ethics and compliance activities and is in line with best practices of large multi-national corporations. The Board has appointed, in its assessment, a highly qualified individual to oversee these four key functions. Nortel believes that it has put in place a compliance infrastructure as well as a consistent approach to corporate discipline for breaches of its policies, procedures and Code of Conduct. The Chief Compliance Officer reports directly to the CEO and the Audit Committee and only the Audit Committee can hire or fire the Chief Compliance Officer. The Ethics function is responsible for recommending changes to and interpretations of Nortel's Code of Conduct, improving employee awareness of the Code of Conduct, monitoring annual employee certification of the Code of Conduct, devising and conducting Code-specific and other training for employees, and intake of employee allegations of Code violations. An updated Code of Conduct was issued by the Ethics function in September 2006, and mandatory training in the new Code's provisions and employee certification, where permitted by applicable law, has been implemented. The Compliance function has the following responsibilities: reviewing planned activities and transactions to ensure compliance with Company policies and applicable laws; reviewing policies and procedures to ensure compliance with applicable laws; developing employee compliance training; conducting compliance audits of the business units and regions in which compliance risks are assessed; reviewing findings of compliance audits; monitoring resolution of calls to Nortel's ethics "hot line" to ensure complaints are promptly and thoroughly investigated and resolved; identifying risk areas that require additional training; and identifying potential areas of compliance risk, based on the internal and external environments, and developing corrective action plans. Nortel has enhanced its anti-fraud management process, including by establishing an anti-fraud policy and guidance on how to communicate knowledge of potential fraud under the Code of Conduct. To ensure that Nortel's ethics hot line will remain an effective and active means for employees to report concerns, Nortel continues to promote the use and effectiveness of the hot line to employees. A highly visible icon was developed and is placed on Nortel's Global Web home page to provide employees with a daily visible reminder of the hot line. As a further means of reminding employees of the hot line, posters advertising the hot line were prepared and placed at major facilities in 2006. A follow-up poster campaign is contemplated for 2007. Nortel's ethics certification process requires employees to certify annually that they have read, understood and will comply with the Code of Conduct. The certification process is typically used as another opportunity to remind employees of the requirement to report actual and suspected violations, and of the existence of the hot line. In addition, many of Nortel's general training sessions are used to reinforce the existence and importance of the hot line. Specialized training for Finance employees has also been used to remind Finance employees of the hot line. In late 2006, Nortel launched an on-line scenario-based ethics training module. The training is mandatory for all employees. This training module reinforces the existence and importance of the hot line. One scenario in particular involves using the hot line to deal with employee concerns. Nortel issues a quarterly Compliance newsletter which also publicizes the hot line. In addition to the above, communications from leaders have from time to time reminded employees of the hot line and encouraged them to use it. To demonstrate the effectiveness of the hot line, Nortel is implementing measures to communicate generally to employees, to the extent permitted by privacy laws and Nortel's privacy policy, the results of disciplinary actions arising from reported allegations. This is intended to ensure employees understand that allegations are taken seriously, will be investigated and dealt with thoroughly, and employees are treated similarly. The primary vehicle for communicating such matters to employees will be the quarterly Compliance newsletter. In addition, employees reporting concerns are advised of the results of investigations, to the extent permitted by privacy laws and Nortel's privacy policy. The quarterly Compliance newsletter, as well as Nortel's annual ethics certification process, will serve as a continuing means to communicate the importance of compliance with Nortel's Code of Conduct.

(vi) The Company created a Compliance Committee in February 2006 to oversee the effectiveness of Nortel's compliance program, policies, procedures and the Code of Conduct and provide direction to the Office of Compliance. The Compliance Committee is now composed of Nortel's CEO, CFO, Chief Compliance Officer, Chief Legal Officer, and Executive Vice President, Corporate Operations, in order to ensure coordination of legal, compliance, ethics and risk management programs and activities throughout the Company. The Compliance Committee's oversight responsibilities include: ensuring that the Company's compliance program is well communicated; regularly reviewing policies, procedures and other internal systems to ensure they are in compliance with the Code of Conduct, relevant laws, and are in alignment with the overall compliance program; receiving reports on calls to the ethics hot line and other sources to verify that each complaint is properly reviewed, investigated and resolved; monitoring on-going compliance training and awareness programs; reviewing the results of compliance audits and actions taken to address audit findings and recommendations; reviewing all reports of fraud or related unethical activities to ensure they are brought to the attention of the Audit Committee and investigated as appropriate; reviewing the compliance risk assessments and proactive actions to address the risks; and monitoring of discipline imposed by the Company to ensure that discipline is fair and consistent across the Company. The Chief Compliance Officer reports on the activities of the Compliance Committee to the Audit Committee on a quarterly basis, including the volume of usage of the ethics hot line and any areas identified by the Compliance function as requiring additional training or potential areas of compliance risk.

Processes:

(vii) In response to the finding of the Independent Review that historically Nortel Finance employees responsible for meeting EBT targets, rather than employees in the Control organization, had authority to record and release provisions, the Board directed management to end that practice by separating the FP&A and Control functions and by vesting the Control organization with sole responsibility for accounting decisions and accounting entries. With the exception of joint venture entities and Nortel Government Solutions, Inc. (a variable interest entity for accounting purposes, which is subject to a "hold separate" arrangement to comply with U.S. national industrial security requirements), the Company implemented the new segregated structure over a six-month period, from September 2005 to February 2006, and the FP&A functions are now separate from the Control function, and the Control organization has had the exclusive authority to approve and post general ledger entries commencing with the closing of Nortel's books and records for the quarter ended March 31, 2006, other than tax-related entries which are approved by the Company's Tax organization.

(viii) Management has restructured the Company's technical accounting function into two groups to provide technical accounting guidance: one for revenue recognition issues, called Global Revenue Governance ("GRG"), and one for all other accounting issues, called Global Technical Accounting ("GTA"). Both GRG and GTA report directly to the Assistant Controller. The mandate of GRG is to render binding guidance on the accounting for revenue recognition for contracts and contract amendments and to serve as the final authority on revenue recognition decisions. The mandate of GTA is to make binding decisions for the accounting on all technical non-revenue issues, including issues related to provisions. Important issues arising out of either GRG or GTA are required to be raised with the Controller for resolution. Internal finance process guidelines ("FPGs") have been adopted to formalize the authority of GRG and GTA. These FPGs contain matrices with dollar thresholds above which the Assistant Controller or the Controller, as applicable, must approve the accounting guidance. New directors of both GRG and GTA, with appropriate technical qualifications, have been recruited from outside Nortel. Management has also increased the staffing of GRG and GTA and upgraded the technical qualifications of their respective personnel.

(ix) Since April 2004, responsibility for drafting and revising Nortel's internal accounting and finance process guidelines has been vested in the Global Finance Policies & Process ("GFPP") group, led by a certified public accountant. The mandate of GFPP is to keep Nortel's internal accounting guidance current and in compliance with U.S. GAAP, to make that guidance "user-friendly" with "real life" examples of practical applications where appropriate and to identify changes to U.S. GAAP and update Nortel's accounting policies accordingly. As at December 31, 2006, GFPP has developed twenty-five accounting guidelines on various topics, including accruals, provisions, revenue recognition and foreign exchange. In addition, GFPP has developed thirteen FPGs on various topics, including manual journal entries, balance sheet reviews, revenue recognition documentation and account reconciliations. Further, as at March 31, 2007, GFPP has reviewed and, where necessary, revised all key internal accounting guidelines and included "real life" examples of practical applications of such guidance where it was considered appropriate. Monthly newsletters to Finance employees are issued on new policies, accounting guidelines and FPGs.

(x) As part of its remediation efforts and to compensate for the material weaknesses in Nortel's internal control over financial reporting, management undertook intensive efforts in 2005 and early 2006 to improve its internal controls and procedures relating to revenue recognition. These efforts included, among other measures, an extensive collection and review by GRG of documentation on customer contracts, comprising approximately 75% of 2005 revenues, to determine whether Nortel's revenue recognition accounting policies were being applied properly and consistently across the organization. As a result of these and other efforts, various revenue recognition errors were identified and adjusted in the 2005 Annual Report, as described in more detail in paragraphs 45-47 of the Settlement Agreement. In the first quarter of 2006, Nortel issued a new FPG requiring a review by GRG for all new contracts and amendments to existing contracts having a total revenue impact in excess of $5 million. The review is required to be completed by the time of the Audit Committee meeting in respect of the quarter in which the delivery of product, or performance of services or fulfillment of other contractual obligations, occurs. Additional measures have been implemented in an effort to ensure that all contracts are submitted to GRG for binding accounting guidance. For example, GRG is now provided with a quarterly confirmation of all contracts, and incremental approval from the Controller is required for amendments or superseding contracts that change the timing of revenue recognition. Both GRG and Nortel's Contract Assurance group, which group's mandate is to accurately execute on the application of U.S.

GAAP and GRG guidance issued pursuant to the new FPG, now report to the Assistant Controller.

(xi) Starting in 2004, Nortel's management has implemented significant controls around manual journal entries ("MJEs") in an effort to reduce their susceptibility to human error and manipulation. These controls include the development and adoption of FPGs that specify the supporting documentation that must be provided before a MJE can be approved and posted to the general ledger, the authority level of individuals authorized to approve MJEs and the segregation of duties among the initiator, approver and poster of the MJE. MJEs and all supporting documentation are required to be loaded into a database to facilitate both record retention and access by all appropriate parties, such as the compliance reviewers, Internal Audit and the external auditors. Also, Finance employees received training on the application of the new MJE controls and their requirements. With the exception of joint venture entities and Nortel Government Solutions, Inc., incremental compliance reviews were commenced in 2005 for all MJEs over a specified dollar value for compliance with the new documentation requirements for MJEs. In 2006, Nortel established the Global MJE Center of Excellence to implement a consistent global compliance review process and global compliance reporting under the leadership of the Company's U.S. Regional Controller, who reports directly to the Controller. Under this global incremental review process, any MJE that fails to satisfy one or more of the substantive requirements (such as failure to attach complete, relevant supporting documents or appropriate approvals) is required to be rejected by the reviewer and returned to the initiator of the MJE for remediation and subsequent validation by the reviewer.

(xii) Beginning with the filing of Nortel's 2004 Form 10-K, management adopted and began to implement a series of improved internal controls on the preparation and review of post closing adjustments ("PCAs"). Because all PCAs are MJEs submitted after the initial consolidation of the financial statements, management determined to apply all of the control requirements governing MJEs to PCAs. To eliminate the potential for inappropriate corporate initiation of PCAs, PCAs must be initiated in the regions or business units, with the exception of normal and appropriate corporate tax, consolidation and elimination entries. Once approved, proposed PCAs are subject to the same incremental compliance review as MJEs. All of the materials relevant to each PCA are loaded into a database that is accessible by all appropriate parties including Nortel's external auditors. The Director of Corporate Consolidations (the "Director") is required to review each proposed PCA for materiality and, based on that analysis, recommend to the Controller the proposed PCAs that should be posted and those that should be placed on a list of unadjusted differences. The Director and Controller then review those recommendations and the underlying accounting rationale, and the Controller must determine which adjustments to record. Any unadjusted differences remaining at the end of this process which have been deemed to be immaterial are required to be reported to the Audit Committee. Management's goal is to remediate the gaps in controls which do not operate effectively to prevent late entries. During 2006, the Corporate Consolidations group commenced a process to review the root causes of PCAs. This process has evolved and, starting in 2007, Corporate Consolidations, with assistance from the SOX group, collects information on each PCA to determine the root cause of the PCA, in particular what (if any) internal control deficiency gave rise to the PCA, and a remediation plan is developed and implemented by the initiator of the PCA, as appropriate, with specific timelines for completion of the required remedial activity. Corporate Consolidations is responsible for tracking the remedial actions against plans and timelines.

(xiii) Commencing in 2005, the Controller initiated weekly meetings, held throughout the quarter-close process until the financial statements are filed, in which technical accounting issues are discussed, monitored and resolved. These meetings are attended by the Controller, Assistant Controller, senior managers in GRG and GTA and other employees, depending on the issues under discussion, and the external auditors.

(xiv) Starting in 2005, Nortel's management has implemented an enhanced balance sheet review ("BSR") process in recognition that timely and thorough BSRs provide an effective internal control. With the exception of tax (which is the responsibility of the Company's Tax organization), all balance sheet line items have been assigned an "owner" within the Control organization who is responsible for overseeing all transactional activity within the account, including determining the propriety of all such activity in compliance with U.S. GAAP and for preparing documentation about the account prior to each quarterly BSR. The BSR process includes a comprehensive evaluation of activity within key liability accounts and a specific focus on the review of provisioning activity as well as cumulative foreign exchange translation adjustment movements. The process also includes a review of restructuring charges, the monitoring of which has been centralized within the Control function. Each balance sheet account owner must explain the activity in the account and identify the triggering events for all substantial activity. The controls and review processes around current liability balances and related releases have been enhanced through the development of improved continuity schedules (which track quarterly changes in accrued liabilities accounts) with narrative explanation for substantial additions and identification of the triggering events for all substantial releases. The continuity schedules are required to be reviewed and analyzed by Nortel's Corporate Consolidations group and presented by the Controller to the Audit Committee quarterly.

(xv) Beginning in 2005, management enhanced the reviews conducted during its internal quarterly profit and loss meetings ("Results Calls") to provide a forum for discussion of the results for each of its business units separately and the results on a consolidated basis, and discuss the variance analysis to budget, to the prior period and to the prior year. In the Results Calls for each business unit, the finance leader of the business unit, FP&A and the applicable Regional Controller are called upon to identify and discuss significant technical accounting issues, including revenue recognition items, that arose during the period that could affect the results for that period. Where technical accounting issues remain outstanding, they are discussed during the Results Calls as well as during the Controller's accounting issues meetings. To the extent technical accounting issues have not been resolved at the time of the Results Calls, such issues are to be resolved and reported on during the BSRs, which occur prior to the filing of the financial statements.

(xvi) Recognizing that timely and accurate account reconciliations are a priority, Nortel's new management has implemented a policy requiring timely account reconciliations to confirm the accuracy and completeness of ending balances in each general ledger account. In the third quarter of 2006, management issued a new global FPG on the account reconciliation process to outline the requirements for account reconciliations, and which requires quarterly reconciliation of each balance sheet account. Certain accounts determined to be high risk, based on an account risk analysis by the appropriate Control leader, must be reconciled prior to the Audit Committee meeting for the applicable reporting period. Reports are prepared to monitor the timely preparation and review of reconciliations.

(xvii) With respect to foreign exchange, in 2005, Nortel's management enhanced its annual functional currency study which ultimately determines the methodology for translating subsidiary foreign currency results to U.S. dollar reporting currency. The enhanced study improved the analysis and documentation to substantiate the functional currency determination, and is reviewed and approved by the appropriate regional Controller and corporate Controller. In addition, in 2005, management implemented a quarterly process to analyze inter-company balances for compliance with SFAS No. 52, paragraph 20. The Treasury function reviews inter-company loans quarterly and inter-company trade positions annually to assist Control in determining if any balances are of a long-term investment, whereby foreign exchange would be recorded in equity. Systems have been automated to support the translation of a significant operating subsidiary's foreign currency results to U.S. dollar reporting.

(xviii) The Audit Committee has established new priorities for the Internal Audit organization relating to the evaluation of risk exposures for financial reporting, and management has amended the charter for the internal audit function to include oversight responsibilities for the adequacy and effectiveness of financial reporting controls. The Audit Committee realigned the reporting responsibilities for Internal Audit and directed senior management to strengthen significantly the internal audit function in the first quarter of 2004, and also hired a new Internal Audit leader as of July 2005. The head of Internal Audit reports directly to the CEO and the Audit Committee to ensure that Internal Audit is independent from the activities it reviews. Beginning in 2005, Internal Audit work plans include a focus on accounting for transactions, financial reporting and financial reporting controls. Starting in 2006, the Internal Audit work plan includes an assessment of the adequacy and degree of compliance with financial, operational and system controls.

(xix) As part of the efforts to increase awareness of and timely and appropriate remediation of internal controls, in the second quarter of 2006 Nortel established a SOX Steering Committee comprised of senior management from Finance, Legal, Human Resources, Internal Audit, Information Services and Operations. Regular reporting of remediation activities to senior management, including an escalation process to address areas where remediation planned dates were not met was implemented. The SOX vice president regularly meets with Internal Audit and reports to the Audit Committee on the ongoing development, implementation and progress of remedial measures. Training is provided for teams that document and administered controls to improve control design competencies. In addition, the SOX team implemented a revised SOX 404 scope, a comprehensive methodology redesign and changes to the documentation requirements to greatly improve the quality of the SOX 404 documentation. As a result of all of these activities, there was significant remediation in 2006 of internal control deficiencies identified in various business processes that impact the Company's internal control over financial reporting.

(xx) The Board has implemented processes for Nortel's management to provide quarterly assessments in respect of the overall quality and transparency of the

Company's financial reporting and suggestions for improvements in its form and content, which Nortel's external auditors have the opportunity to review and comment on. These processes include quarterly reporting by the CFO and Controller to the Board and by the SOX vice president and head of Internal Audit to the Audit Committee. Further, the presidents of the business units are expected to take full responsibility for the respective financial results of their businesses and, commencing in 2007, will be required, on a quarterly rotation basis, to provide presentations to the Board with the Vice President, Finance on the financial results of their respective business units. In addition, the Audit Committee will periodically hold separate executive sessions with the Vice President, Finance to discuss financial issues specific to each business unit.

Technology:

(xxi) In an effort to improve Nortel's financial reporting systems and capabilities, to simplify its multiple accounting systems, and to reduce the number of MJEs, Nortel retained an outside consulting firm to advise on the appropriateness of implementing a Systems, Application and Products ("SAP") platform worldwide that would consolidate many of Nortel's systems into a single integrated financial software system. Based on that advice, Nortel adopted the SAP platform to integrate its processes and systems, and undertook an assessment of existing financial systems and processes to determine the most effective implementation of standard SAP software. The finance design and build for the initial scope of the SAP system, including general ledger functionality, was completed by the end of August 2006, and these processes are planned to be tested and fully deployed during 2007. Once fully deployed, Nortel estimates that MJEs will be reduced by approximately 30%. Processes for additional activities will be built upon this first phase of functionality. Process design for these additional activities has been completed and management expects that the build, testing and deployment will be completed by the third quarter of 2007.

(xxii) The Company's general computing control ("GCC") environment has been strengthened with the implementation of new and enhanced controls. During

2006, numerous control deficiencies were remediated across applications, interfaces and the infrastructure impacting internal control over financial reporting. In particular, Nortel established a standard user management process that facilitates the approval of all user access requests and the removal of accounts when appropriate and implemented regular reviews of business user accounts. Further, Nortel implemented standard and enhanced controls regarding change management to applications to ensure the changes are appropriately tested, approved and implemented. In addition, enhanced security protection of data files used to transfer data from one application to another were implemented. Segregation of duties was improved in the GCC environment by restricting the number of operating system administrators with privileged access maintaining an audit trail of software changes that are made to some key information system applications.

SCHEDULE "D"

REMEDIATION PLAN REFERRED TO IN PARAGRAPH 77 OF THE SETTLEMENT AGREEMENT DATED MAY 16, 2007 BETWEEN STAFF OF THE ONTARIO SECURITIES COMMISSION AND NORTEL NETWORKS CORPORATION AND NORTEL NETWORKS LIMITED.

	ACTION[1]	*ESTIMATED TARGET DATE*[1]	*ADDITIONAL INFORMATION*
Material Weakness Remediation Plan	Implement and continue to develop the following remediation plan to address the root causes of the material weakness in the Company's internal control over financial reporting referred to in paragraph 74 of the Settlement Agreement, as well as other deficiencies in other revenue related controls referred to below:		
	(a) Cross-Functional Communication: (i) conduct analyses of selected revenue related prior period adjustments ("PPAs") initially reported in periodic reports filed during 2006, that were restated as part of the restatement included in the	Q2 2007	• Initial focus of this analysis will be on revenue related PPAs representing approximately 80% of the total dollar value of all revenue related PPAs initially reported in periodic reports filed during 2006. This analysis will include, among other actions, determining the root cause of the adjustment, whether the root cause indicates a broader issue regarding

[1] The following action items and estimated target dates represent current planned remedial actions and the estimated fiscal quarter for completion of the particular remedial action, and may be subject to future modifications and adjustments. Remediation Progress Reports will include reasonable details of all such modifications and adjustments and the principal reasons therefor.

	ACTION[1]	***ESTIMATED TARGET DATE***[1]	***ADDITIONAL INFORMATION***
	2006 Annual Report, including those related to LG-Nortel, in order to achieve a better understanding of the root causes of the adjustments and identify other appropriate remedial actions and incorporate those actions into the remediation plan;		control deficiencies, and whether additional training may be required on a specific aspect of revenue recognition. • Interviews will be held with the initiators of these PPAs using a detailed template to capture information for further analysis. • PPAs recorded in the first quarter of 2007 affecting revenues, if any, will be included in the analysis.
	(ii) conduct further analyses to obtain a more comprehensive understanding of the end-to-end revenue cycle, including the manner and timing of information flow from one functional group to another throughout the Company, in order to identify the specific gaps in communication and to further define roles and responsibilities for communication within the revenue cycle; and	Q2 2007	• Information will be collected and consolidated on the various components of the revenue cycle, such as Order Management, Project Management, Invoicing and Revenue Recognition. • End-to-end flowcharts of the revenue cycle will be created and confirmed with the relevant managers/directors. • Information collected through this end-to-end review will be compared with information collected through the analysis of PPAs to identify any inconsistencies. • Control points will be identified, such as points in the revenue cycle where information relevant to revenue accounting is transferred from one group/system to another.
	(iii) implement internal control process changes (including	Q3 2007	• Controls will be assessed to determine whether they are designed to ensure that information flows

	ACTION[1]	*ESTIMATED TARGET DATE*[1]	*ADDITIONAL INFORMATION*
	any necessary redefined roles and responsibilities) to address the identified root causes and gaps in cross-functional communication.		completely and accurately throughout the revenue cycle. • Existing controls will be enhanced or new controls will be implemented, as appropriate, including revising job descriptions where necessary to ensure there is clear accountability for these controls. • If it is determined that a control design is adequate, but is not operating effectively, appropriate remediation plans (for example, additional training) will be implemented.
	(b) Segregation of Duties: (i) identify and implement revisions to corporate security policy;	Q2 2007	• The corporate security policy is being reviewed by the SOX technical support team to identify areas where it should be expanded to address issues identified during the 2006 SOX 404 assessment: for example, Information Services personnel having access to business systems.
	(ii) address the specific revenue related segregation of duties deficiencies in internal controls identified in the 2006 SOX 404 assessment, which specifically included lack of segregation of duties in certain instances; and	Q2 2007	• Remediation of deficiencies related to segregation of duties will be tracked as part of the overall deficiency remediation reporting to the SOX management team on a weekly basis and to the SOX Steering Committee on a biweekly basis.

	ACTION[1]	*ESTIMATED TARGET DATE*[1]	*ADDITIONAL INFORMATION*
	(iii) as certain of the identified deficiencies relate to insufficient segregation of duties regarding access to computer systems, define and implement an expanded semi-annual user review.	Q3 2007	• Discussions are underway with the Information Services group as to how the group's role needs to change to support the expanded semi-annual user review. • A detailed project plan has been developed specifically to address segregation of duties issues regarding access to computer systems, which is reviewed by the VP SOX on a weekly basis in conjunction with the SOX technology team leader. • As part of Nortel's Finance Transformation project, the Company will implement further programmed rules within computer systems as a layer of preventive controls within the systems in order to avoid segregation of duties issues.
	(c) LG-Nortel: (i) develop and implement a finance training policy as part of LG-Nortel's internal controls, similar to the Company's finance training policy;	Q2 2007	• Training of LG-Nortel personnel will be monitored directly by the CFO of LG-Nortel. • LG-Nortel recently appointed an individual from the Control function with U.S. GAAP experience as Assistant Controller of LG-Nortel.
	(ii) in addition to the training on revenue arrangements with multiple deliverables delivered to and completed by Finance and sales personnel of	Q2 2007	

	ACTION[1]	*ESTIMATED TARGET DATE*[1]	*ADDITIONAL INFORMATION*
	LG-Nortel in Q1 2007, completion of three-day revenue recognition course by appropriate Finance personnel of LG-Nortel; and		
	(iii) address the deficiencies in internal controls identified in the 2006 SOX 404 assessment specific to LG-Nortel.	Q2 2007	• Other revenue recognition issues to be addressed regarding LG-Nortel are subsumed within the other relevant action items in this Schedule D.
	(d) End User Computing Applications: (i) implement remedial actions to address the revenue related deficiencies in end user computing applications ("EUCAs") identified in the 2006 SOX 404 assessment, and in particular the elimination of unauthorized access to EUCAs.	Q2 2007	• Standards and guidelines for EUCAs (such as spreadsheets) have been revised to address the issues identified in the 2006 SOX 404 assessment, and have been reviewed with the Company's independent accountants. • Remediation of EUCA deficiencies are tracked through the Company's SOX compliance tool, NICAT. • Testing of each EUCA in scope for the 2006 SOX 404 assessment has been scheduled and will take place during April, with overall conclusion on remediation of EUCA deficiencies targeted for May.

	ACTION[1]	*ESTIMATED TARGET DATE*[1]	*ADDITIONAL INFORMATION*
	(e) **Other Revenue Recognition Training:** (i) completion of three-day revenue recognition training and one-day revenue recognition model for revenue arrangements training by targeted population;	Q3 2007	• Targeted populations for training are being re-confirmed since a number of staff have moved between Finance functions. • Reports on attendance are generated monthly to monitor progress and escalate training where required.
	(ii) identify appropriate target population in the sales organization and complete training on revenue recognition and transaction structure models; (iii) develop revenue recognition training program for the identified order management target population; and (iv) implement revenue recognition training program for the identified order management target population.	Q4 2007 Q2 2007 Q4 2007	

	ACTION[1]	*ESTIMATED TARGET DATE*[1]	*ADDITIONAL INFORMATION*
	(f) Aid to Implementation of Revenue Recognition Guidelines:		
	(i) develop and implement aids to revenue related accounting guidelines by the Global Revenue Governance group with the goal of heightening the awareness of the Contract Assurance team on identified items.	Q2 2007	• Progress is being monitored through weekly material weakness remediation meetings. • Examples of aids under development include: highlighting that all contracts with a certain type of network element assume a level of customer support for which the fair value is not known, and hence deferral of revenue should be considered; and Rural Utility Service (RUS) contracts most often contain a liquidated damages provision, and hence all RUS contracts should be evaluated with Finance to ensure proper revenue recognition treatment.
	(g) General Computing Controls ("GCC"):		
	(i) remediate the remaining deficiencies in systems that support the end-to-end revenue cycle, such as access by the Information Services group to production systems.	Q2 2007	• The VP SOX meets biweekly with the Information Services SOX leader to review the status of Information Services activities in addressing remaining revenue related deficiencies. • As at April 12, 2007, approximately 57% of the 2006 GCC deficiencies related to revenue recognition had been remediated.
	(h) Deficiency Remediation:		
	(i) apart from those noted in the items above, remediate all	Q2 2007	• Reports are generated weekly to highlight progress made on remediation of the specific deficiencies that

	ACTION[1]	*ESTIMATED TARGET DATE*[1]	*ADDITIONAL INFORMATION*
	specific deficiencies in internal controls identified in the 2006 SOX 404 assessment that impact upon the end-to-end revenue cycle.		impact upon the end-to-end revenue cycle, and are reviewed by the VP SOX. • These reports will be distributed to the SOX Steering Committee every two weeks.
People	Review of the skill sets and training of individuals occupying those key positions against the Competency and Training Model to verify individuals occupying those positions have the necessary skill sets and training, and the appropriate professional development plan.	Q2 2007	
	Review the Company's existing mandatory training requirements against the Competency and Training Model and identify any revisions to be made to those mandatory training requirements.	Q3 2007	
Technology	Deployment of SAP system functionality for the general ledger, inter-company accounts, consolidation, direct accounts payable and accounts receivable.	Q2 2007	

	ACTION[1]	*ESTIMATED TARGET DATE*[1]	*ADDITIONAL INFORMATION*
	Deployment of SAP system functionality for direct tax, advanced planning, indirect purchasing, fixed assets, research & development, and treasury activities.	Q3 2007	

SCHEDULE "E"

REMEDIATION PROGRESS REPORT TEMPLATE REFERRED TO IN PARAGRAPH 79 OF THE SETTLEMENT AGREEMENT DATED MAY 16, 2007 BETWEEN STAFF OF THE ONTARIO SECURITIES COMMISSION AND NORTEL NETWORKS CORPORATION AND NORTEL NETWORKS LIMITED.

1. REPORTING PERIOD

Each report will identify the period to which the report relates (the "reporting period").

2. PROGRESS OF REMEDIATION PLAN

Each report will provide reasonable details of the actions taken during the reporting period for, and status of, each of the remedial measures identified in the Remediation Plan (as set forth on Schedule "D" to the Settlement Agreement). The reports will indicate whether the Company has met or is on track to meet the target timeline for implementation of each remedial measure and, if not, what actions remain outstanding, the principal reasons for the delay and any revised internal timeline to complete such actions. The reports will also include reasonable details of all modifications or adjustments in any of the planned remedial measures identified in the Remediation Report and the principal reasons for such modifications or adjustments.

Should the existing material weakness (as referred to at paragraph 74 of the Settlement Agreement) remain, in whole or in part, at the end of the reporting period, the report will include reasonable details as to the following in respect of each such material weakness:

(i) a description of the material weakness;

(ii) a description of the root causes of the material weakness as identified by management;

(iii) a description of the principal compensating procedures and processes that management has put in place to ensure the reliability of the Company's financial reporting in light of the material weakness;

(iv) the specific remedial actions which management has identified are required to be taken to fully remedy the material weakness or, if such actions have yet to be identified, the process which management proposes to follow to identify such remedial actions; and

(v) the estimated internal timeline for implementing such remedial actions and/or process.

3. TRAINING, COMPLIANCE, ETHICS AND INTERNAL AUDIT

Each report will provide an overview of the areas of focus and activities of the Company's financial accounting training programs and Compliance, Ethics and Internal Audit functions (as described in paragraphs (iv), (v) and (xviii) of Schedule "C" to the Settlement Agreement) during the reporting period, including (without limitation) reporting on:

(i) the activities of the Company's Global Finance Training and Communications group, including remedial and on-going financial accounting training programs developed for Finance, Control and FP&A employees and including the minimum annual training requirements established for Finance employees;

(ii) the communications activities of the Ethics and Compliance functions, including activities directed towards the promotion of Nortel's ethics "hot line", the volume of calls received by the hot line and an overview of the categories of areas raised in such calls; and

(iii) progress on the testing and deployment of the SAP system.

4. CONFIRMATIONS

Each report will confirm that the report has been reviewed by the Company's Chief Compliance Officer and the Audit Committee and reflects their comments, if any, on the report.

Where applicable, a report will confirm whether:

(i) the Company has remedied the material weakness in its internal controls over financial reporting to the satisfaction of its external auditors; and/or

(ii) the Company has completed the implementation of the Remediation Plan.

5. SIGNATURES

Each report will be signed by the Chief Financial Officer and Controller of the Company.