This is Exhibit E referred to in the Affidavit of Arlene Borenstein (Plante) , sworn before me this 10th day of August, 2010.

A Commissioner for Taking Affidavits, etc.

DEANNE E. FOWLER
BARRISTER AND SOLICITOR

Court File No. 09-CL-7950

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF NORTEL NETWORKS CORPORATION, NORTEL NETWORKS LIMITED, NORTEL NETWORKS GLOBAL CORPORATION, NORTEL NETWORKS INTERNATIONAL CORPORATION AND NORTEL NETWORKS TECHNOLOGY CORPORATION

THIRTY-NINTH REPORT OF THE MONITOR DATED FEBRUARY 18, 2010

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THIRTY-NINTH REPORT OF THE MONITOR DATED FEBRUARY 18, 2010

INTRODUCTION

1. On January 14, 2009 (the "**Filing Date**") Nortel Networks Corporation ("**NNC**" and collectively with all its subsidiaries "**Nortel**" or the "**Company**"), Nortel Networks Limited ("**NNL**"), Nortel Networks Technology Corporation, Nortel Networks International Corporation and Nortel Networks Global Corporation (collectively the "**Applicants**") filed for and obtained protection under the Companies' Creditors Arrangement Act ("**CCAA**"). Pursuant to the Order of this Honourable Court dated January 14, 2009, as amended and restated (the "**Initial Order**"), Ernst & Young Inc. was appointed as the Monitor of the Applicants (the "**Monitor**") in the CCAA proceedings. The stay of proceedings was extended to April 23, 2010, by this Honourable Court in its Order dated January 21, 2010.

2. Nortel Networks Inc. ("**NNI**") and certain of its U.S. subsidiaries concurrently filed voluntary petitions under Chapter 11 of Title 11 of the U.S. Bankruptcy Code (the

"**Code**") in the United States Bankruptcy Court for the District of Delaware (the "**U.S. Court**") on January 14, 2009 (the "**Chapter 11 Proceedings**"). As required by U.S. law, an official unsecured creditors committee (the "**Committee**") was established in January, 2009.

3. An ad hoc group of holders of bonds issued by NNL, NNC and Nortel Networks Capital Corporation has been organized and is participating in these proceedings as well as the Chapter 11 Proceedings (the "**Bondholder Group**"). In addition, pursuant to Orders of this Honourable Court dated May 27, 2009, July 22, 2009 and July 30, 2009, representative counsel was appointed on behalf of the former employees of the Applicants, the continuing employees of the Applicants and the LTD Beneficiaries, respectively, and each of these groups is participating in the CCAA proceedings (as described in further detail below).

4. Nortel Networks (CALA) Inc. (together with NNI and certain of its subsidiaries that filed on January 14, 2009, the "**U.S. Debtors**") filed a voluntary petition under Chapter 11 of Title 11 of the Code in the U.S. Court on July 14, 2009.

5. Nortel Networks UK Limited ("**NNUK**") and certain of its subsidiaries located in EMEA were granted Administration orders (the "**UK Administration Orders**") by the High Court of England and Wales on January 14, 2009 (collectively the "**EMEA Debtors**"). The UK Administration Orders appointed Alan Bloom, Stephen Harris, Alan Hudson and Chris Hill of Ernst & Young LLP as Administrators of the various EMEA Debtors, except for Ireland, to which David Hughes (Ernst & Young LLP Ireland) and Alan Bloom were appointed (collectively the "**Joint Administrators**"). On June 8, 2009, the

Joint Administrators appointed in respect of NNUK filed a petition with the U.S. Court for the recognition of the Administration Proceedings as they relate to NNUK (the "**English Proceedings**") under Chapter 15 of the Code. On June 26, 2009, the U.S. Court entered an order recognizing the English Proceedings as foreign main proceedings under Chapter 15 of the Code.

6. On January 20, 2009, Nortel Networks Israel (Sales and Marketing) Limited and Nortel Communications Holdings (1997) Limited (together "**NN Israel**") were granted Administration orders by the court in Israel (the "**Israeli Administration Orders**"). The Israeli Administration Orders appointed representatives of Ernst & Young LLP in the UK and Israel as Administrators of NN Israel (the "**Joint Israeli Administrators**") and provided a stay of NN Israel's creditors which, subject to further order of the Israeli Court, remains in effect during the Administration.

7. Subsequent to the Filing Date, Nortel Networks SA commenced secondary insolvency proceedings within the meaning of Article 27 of the European Union's Council Regulation (EC) No 1346/2000 on Insolvency Proceedings in the Republic of France pursuant to which a liquidator and an administrator have been appointed by the Versailles Commercial Court.

PURPOSE

8. The purpose of this Thirty-Ninth Report of the Monitor ("**Thirty-Ninth Report**") is to provide this Honourable Court with:

(a) information about the process leading up to the settlement (the "**Settlement**") reached among the Applicants, the Monitor, the Former Employee Representatives (on their own behalf and on behalf of the parties they represent), the LTD Employee Representative (on her own behalf and on behalf of the parties she represents), the Former Employees' Representative Counsel, the LTD Beneficiaries' Representative Counsel and the CAW (the "**Settlement Parties**") regarding certain issues related to, among other things, the Applicants' registered Pension Plans, certain employee benefits for Pensioners and LTD Beneficiaries among others (the "**Benefits**") and certain employment related issues;

(b) an update on the Settlement notice process approved by Order of this Honourable Court dated February 9, 2010 (the "**Notice Procedure Order**");

(c) information concerning the Benefits and the Applicants' Health and Welfare Trust (the "**HWT**") to the extent relevant, including the manner and nature of payments, and the Applicants' Pension Plans;

(d) an analysis of the Settlement and related documentation and the impact on applicable stakeholders;

(e) information related to the Applicants' financial capacity to fulfil the terms of the Settlement; and

(f) the Monitor's recommendation for approval of the Settlement and the making of the Settlement Approval Order in substantially the form as submitted by the Applicants (the "**Settlement Approval Order**").

9. For the reasons set out in this Report, the Monitor believes that, overall, the Settlement Agreement and Settlement Approval Order represent a fair balancing of the interests of the Applicants' stakeholders and an important step in the implementation of the Applicants' restructuring, arrived at after extensive negotiations among the Applicants, the Monitor, the Representatives and other interested parties.

TERMS OF REFERENCE

10. In preparing this Thirty-Ninth Report, the Monitor has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company and discussions with management of Nortel. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Thirty-Ninth Report.

11. Capitalized terms used herein (including in the preceding paragraphs) and not otherwise defined shall have the meanings given to them in the Monitor's Thirty-Sixth Report dated February 8, 2010 (the "**Thirty-Sixth Report**"), the Settlement Agreement and the Settlement Approval Order, which terms are reproduced on Schedule "A" hereto for ease of reference.

12. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

BACKGROUND

General Background

13. Nortel is a technology company that designs, develops and deploys communication products, systems, and solutions to its carrier and enterprise customers around the globe. Its principal assets include its people, the intellectual property derived and maintained from its research and development activities, its customers and other significant contracts and agreements.

14. Since September 30, 2009, Nortel has conducted its global business through four reportable business unit segments: Wireline and Wireless Networks, Metro Ethernet Networks, Carrier Voice Application Solutions, and LG Nortel Co. Ltd. ("**LGN**"). The revenue and assets of each of the business units, except for LGN, are distributed among the multiple Nortel legal entities and joint ventures around the world.

15. The Monitor has made various materials relating to the CCAA proceedings available on its website at www.ey.com/ca/nortel. The Monitor's website also contains a dynamic link to Epiq Bankruptcy LLC's website where materials relating to the voluntary proceedings under Chapter 11 of the Code are posted.

Update on CCAA Proceedings

16. At the commencement of the CCAA proceedings, the Applicants announced their intention to assess their business strategy and consider restructuring opportunities with a

view to emerging as a stronger company. In the months following the Filing Date, the Applicants took numerous actions to reduce costs and realize efficiencies, including significant headcount reductions totalling to date approximately 9,200 (37%) of the global workforce, including approximately 1,650 (28%) of the Canadian workforce, and cessation of certain payments to former employees (including benefits under unregistered, unfunded, supplemental retirement plans and cessation of termination and severance payments).

17. In June 2009, the Applicants entered into the Interim Funding and Settlement Agreement (the "**IFSA**"), which was approved by this Honourable Court on June 29, 2009. The IFSA provided, among other things, funding to NNL from NNI for the period from the Filing Date through September 30, 2009. The funding satisfied any claims NNL may have had against NNI for reimbursement of corporate overhead and R&D costs, whether pursuant to the transfer pricing agreement or otherwise, incurred by NNL on behalf of NNI during such period. The total amount of such funding received was US$187.4 million.

18. On June 19, 2009, in conjunction with the announcement of the sale of substantially all of the assets of the CDMA/LTE Access business, Nortel also announced a significant change in its strategic direction, indicating it was proceeding with discussions with several parties to sell its other business units.

19. Since its June announcement, Nortel has closed two (2) major sales resulting in gross proceeds of approximately US$2 billion and announced further sales which, if they close, will yield approximately US$1 billion of additional proceeds. As a result of the sales

already closed or announced, approximately 13,000 Nortel employees have been transferred or will be transferred to the buyers of these business units, including approximately 3,500 Canadian employees. For further details on the Applicants' progress in the CCAA proceedings, please refer to the Monitor's Thirty-Seventh Report dated February 11, 2010 (the "**Thirty-Seventh Report**").

20. In August 2009, Nortel announced several organizational changes, including the creation of Nortel Business Services ("**NBS**") and the Corporate Group ("**CG**") to transition and align its resources to focus on the divestiture of its businesses and other assets. NBS is a business reporting unit, which was created to provide the services required under the Transition Services Agreements (the "**TSAs**") entered into with the buyers of business segments. The CG was created to continue the implementation of the Applicants' restructuring strategy.

21. It is anticipated that NBS and the CG will continue to operate through the remainder of 2010 and 2011 as obligations under the TSAs are fulfilled, remaining assets are realized, a plan of arrangement (a "**Plan**") is developed and implemented, and the remaining entities are ultimately wound-down. As recently announced, CG is focussed on a number of key actions, including the completion of announced sales and the sale of remaining businesses and assets, as well as exploring strategic alternatives to maximize the value of the Applicants' intellectual property. The Applicants have advised that by the end of 2010, it is expected that NBS and CG will be the Applicants' only operating segments, with approximately 475 employees. Accordingly, the emergence of a 'continuing' Nortel with a sizeable workforce will not occur.

22. In December 2009, the Applicants entered into the Canadian Funding and Settlement Agreement ("**CFSA**"), which was approved by this Honourable Court on January 21, 2010. The CFSA, which is described in more detail in the Monitor's Thirty-Fifth Report dated January 18, 2010 (the "**Thirty-Fifth Report**"), provides the Applicants with the funding necessary to continue operating throughout the remainder of the CCAA proceedings and to settle intercompany claims, including significant transfer pricing claims between the Applicants and the U.S. Debtors. The CFSA also provides NNL with further funding of US$190.8 million from NNI.

23. Though Nortel has completed sales for a number of its businesses and continues to pursue sales of other businesses and non-core assets, it remains insolvent and subject to proceedings under the CCAA. The extent of the Applicants' insolvency is highlighted by the claims that have already been filed in these proceedings pursuant to a Claims Procedure Order granted by this Honourable Court on June 30, 2009 (the "**Claims Procedure Order**"). As outlined in the Monitor's Twenty-Fifth Report dated October 25, 2009, approximately $27.9 billion of claims had been filed by the September 30, 2009 bar date established for certain claims. These claims are still subject to a yet to be approved resolution procedure; however, they do not include claims in the following categories:

(a) claims by directors and officers of the Applicants for indemnification and/or contribution arising from such directors' or officers' service to any Applicant;

(b) employee compensation claims; and

(c) inter-company claims (other than with Joint Ventures).

24. Resolution of the claims filed pursuant to the Claims Procedure Order and initiation and completion of claim processes for claims excluded by that order are still required. Resolution of claims is one of the steps required to facilitate the Applicants' development of a Plan and to ultimately bring a conclusion to these insolvency proceedings.

25. Claims resolution and the other activities of both NBS and the CG as outlined in the Thirty-Seventh Report, including the development of a Plan, are all dependent upon the Applicants having sufficient cash to support those activities. The recently approved CFSA provides the Applicants with a funding base to pursue the development of a Plan.

Intermediate Steps to Assist in the Development of the Plan

26. With funding approved, the Applicants, with the assistance of the Monitor, identified several intermediate steps towards the development of a Plan, including the following:

(a) the transition of benefits for employees currently working from existing benefit plans and administrative processes to a structure more appropriate for the reduced workforce;

(b) the termination of unfunded or non-pension benefits for Pensioners, LTD Beneficiaries and Survivors (as subsequently defined) in an orderly manner, without undue disruption;

(c) the transition of the Pension Plans;

(d) the Court approved distribution of the corpus of the HWT to its beneficiaries entitled thereto, and preservation of the corpus to the extent possible, pending such distribution;

(e) the achievement of greater certainty regarding the ranking of claims;

(f) the retention of resources to assist in the restructuring; and

(g) the avoidance of costs where possible, consistent with the Applicants' business strategy, including the avoidance of litigation, where possible.

27. With these steps in mind, and as a result of the progress in the CCAA proceedings, the Applicants and the Monitor commenced the settlement discussions.

SETTLEMENT PROCESS

28. A series of Court approved appointments of employee representatives and counsel established a framework that facilitated discussions among such representatives, the Applicants and the Monitor throughout the CCAA proceedings. The progress made in the CCAA proceedings, including the sale transactions and the approval of the CFSA, led to focussed discussions, a narrowing of issues, an expansion of the discussions to include certain other stakeholder groups, and ultimately, the Settlement Agreement.

Appointment of Representatives

29. As set out in detail in the Monitor's Thirty-Sixth Report dated February 8, 2010 and the Affidavit of Elena King sworn February 18, 2010 (the "**King Affidavit**"), after a series of Court approved appointments, all but a very small number of individuals are represented

in these proceedings by Former Employees' Representative Counsel, LTD Beneficiaries' Representative Counsel, Continuing Employees' Representative Counsel or CAW Counsel and by Former Employees' Representatives, LTD Beneficiaries' Representative or Continuing Employees' Representatives (collectively, the "**Employee Representatives**"). The Court approved mandate for the Former Employees' Representatives and the LTD Beneficiaries' Representative expressly stated that they may represent their constituents for the purpose of settling or compromising their claims in the CCAA proceedings.

30. The only individuals not represented by the above appointments are:

(a) a former employee and a working employee who opted out of such representation; and

(b) any former chief executive officer or chairman of the board of directors, any non-employee member of the board of directors, or such former employees or officers that are subject to investigation and charges by the Ontario Securities Commission or the United States Securities and Exchange Commission

((a) and (b) collectively referred to as the "**Individual Parties**").

As described below, the Individual Parties were provided with notice of the Settlement and the opportunity to oppose the Settlement Approval Motion, if they so wish.

Process Leading Up to Settlement

31. The Applicants and the Monitor have been engaged in discussions with Former Employees' Representative Counsel, LTD Beneficiaries Representative Counsel and the CAW with respect to the claims of their respective constituents since their appointment as representative counsel. Those discussions intensified with the completion of certain sale transactions and the signing of the CFSA in December 2009. By letter dated January 6, 2010 (the "**January 6 Letter**"), prior to the scheduled approval of the CFSA, Settlement Representative Counsel wrote to the Monitor and the Applicants expressing, on behalf of their clients, concerns with respect to:

(a) whether and for how long current benefits would continue to be paid;

(b) that the Pension Plans not be wound up immediately;

(c) that the corpus of the HWT be preserved to the extent possible pending its Court approved distribution; and

(d) that some minimum standards pay for severed employees be provided in addition to the current hardship program.

A copy of the January 6 Letter is attached to this Report as Appendix "A".

32. On January 11, 2010, the Applicants and the Monitor met with Settlement Representative Counsel to better understand the concerns set out in the January 6 Letter. The Monitor believed a multi-faceted agreement would be required to address these concerns. Accordingly, the Monitor and the Applicants initiated discussions with the Settlement

Representative Counsel, the CAW, the Superintendent of Financial Services in his capacity as administrator of the PBGF (the "**Superintendent**") and counsel to the Board, the Bondholder Group and the Committee with a view to developing a comprehensive settlement.

33. Throughout January 2010, the parties engaged in extensive negotiations and exchanged numerous proposals. In addition, Continuing Employees' Representative Counsel were apprised of the settlement discussions.

34. The numerous meetings, negotiations and proposals exchanged among affected parties culminated in the execution of a Settlement Agreement dated February 8, 2010 (the "**Settlement Agreement**") by the Applicants, the Monitor, Settlement Representative Counsel, Settlement Employee Representatives and the CAW (collectively, the "**Settlement Parties**"). Although significant progress had been made in resolving issues and agreeing on language with the Bondholder Group and the Committee, not all matters could be resolved, including the "No Preclusion Clause", discussed in paragraph 97 below.

35. A copy of the Settlement Agreement is attached hereto as Appendix "B". The King Affidavit includes a summary of the Settlement Agreement; however, reference should be made directly to the Settlement Agreement for a complete understanding of its terms. Attached as Schedule "C" to the Settlement Agreement is a letter among the Applicants, the Monitor and the Superintendent (the "**Letter Agreement**"). Further details of the Letter Agreement are set out in the King Affidavit. A discussion of the Settlement Agreement follows, commencing at paragraph 41 of this Report.

Update on Notice Process

36. Through an extensive notice and opposition process set out in the Notice Procedure Order granted by this Honourable Court on February 9, 2010, all parties affected by the Settlement Agreement were provided with notice of the Settlement, of the Settlement Approval Order and the option to oppose the Settlement Approval Motion, if they so wish. Notice was provided to:

(a) the Individual Parties;

(b) the Former Employees (including pensioners, any person claiming an interest under or on behalf of former employees and pensioners and surviving spouses in receipt of an Applicant pension);

(c) the LTD Beneficiaries;

(d) the Unionized Employees;

(e) the Continuing Employees; and

(f) all provincial pension plan regulators and the federal pension plan regulator.

37. As set out in the Thirty-Sixth Report, several preliminary steps occurred prior to the formal notice process set out in the Notice Procedure Order to provide affected parties with notice of the Settlement. These preliminary steps included:

(a) on February 3, 2010, Representative Counsel held a webinar, available to the constituents it represents and the Unionized Employees, for the purpose of providing such parties with advance notice of a forthcoming motion that would have an impact on their situation;

(b) on February 8, 2010, Representative Counsel issued two press releases (in both English and French) regarding the Settlement and the holding of a webinar relating thereto, which press releases are attached to this Report as Appendix "C"; and

(c) on February 8, 2010, the Applicants issued a press release (in both English and French) to announce the entering into of the Settlement, which press release is attached to this Report as Appendix "D".

38. The Monitor has completed the following steps in accordance with the Notice Procedure Order to provide Affected Settlement Notice Parties with notice of the Settlement, including the Settlement Approval Order, and the option to oppose the Settlement Approval Motion, if they so wish:

(a) on February 10, 2010, the Monitor posted a copy of a document package including the Notice Letter (in both English and French), Notice of Appearance (in both English and French), the Settlement Agreement and all Schedules thereto, the Thirty-Sixth Report and the Notice Procedure Order (collectively, the "**Settlement Document Package**") on its website at "**www.ey.com/ca/nortel**";

(b) commencing February 12, 2010 through to February 16, 2010, the Monitor, on behalf of the Applicants, sent a copy of the Notice Letter to each of the Individual Parties, Former Employees, the LTD Beneficiaries, the Unionized Employees, the Continuing Employees and the provincial pension plan regulators (for which it has an address) in the manner described in the Thirty-Sixth Report and the Notice Procedure Order;

(c) the Monitor caused to be published, each on February 16, 2010, an English version of the Notice Letter in the Toronto Star, The Globe and Mail (National Edition), the Ottawa Citizen, the London Free Press, the Montreal Gazette, the Calgary Herald, the Halifax Chronicle Herald, the Kingston Whig Standard, the Vancouver Sun and the Belleville Intelligencer and a French translation of the Notice Letter in La Presse and Le Droit; and

(d) on February 9, 2010, the Monitor commenced using its toll free help line to respond to inquiries and information requests from Affected Settlement Notice Parties.

39. Prior to the Settlement Approval Motion, the Monitor will provide notice to the Service List of Notices of Appearance it has received by the bar date of 10:30 a.m. on March 1, 2010, which have not subsequently been withdrawn.

40. The Monitor will also provide copies of any Notices of Appearance not subsequently withdrawn to the Settlement Parties, counsel to the Committee, counsel to the Bondholder Group and Continuing Employees' Representative Counsel.

INFORMATION AND ANALYSIS CONCERNING THE SETTLEMENT

41. The Monitor believes that the Settlement Agreement represents a fair and reasonable conclusion of extensive negotiations among the Settlement Parties, the Superintendent and counsel to the Committee and the Bondholder Group in addressing the issues that will assist in the development of a Plan, as discussed in paragraph 26 above.

42. Below is a summary of estimated payments the Applicants will make pursuant to the Settlement Agreement (capitalized terms used in the below table are as subsequently defined).

Payment	Approximate Amount[1]
Pensioner M&D	$24.4 million*
LTD M&D and LTD Life	$3.0 million*
STBs	$2.8 million
LTD Income	$12.2 million
SIBs	$1.4 million
Pension Payments	$8.9 million
Termination Fund	$4.3 million
Total	**$57 million**

43. As set out in the above table, the Applicants will make payments under the Settlement Agreement in an aggregate approximate amount of up to $57 million. Of this amount, approximately $12.8 million was provided for in the Applicants' first quarter cash flows. Accordingly, the incremental cost to the Applicants beyond that previously budgeted and reflected in the first quarter cash flows is approximately $44.2 million.

[1] Where a range is indicated for these amounts in paragraphs 56 to 74 below, the high end of the range is used, consistent with the calculation of the Payments Charge.

* These respective amounts include the estimated amount of Pensioner M&D and the estimated amount of LTD M&D and LTD Life, respectively, to be incurred in 2010 and submitted in 2011 (prior to February 28, 2011).

44. The orderly termination of benefits paid through the HWT facilitates the planning for the transition of the benefits of currently working employees, the retention of whom is an integral part of the restructuring.

Benefits

(1) Background Concerning the HWT

45. The Settlement Agreement does not provide for a distribution of the HWT. Rather, the Settlement Agreement provides that the Settlement Parties will work towards a Court approved distribution of the HWT corpus in 2010 to its beneficiaries entitled thereto and the resolution of any issues necessarily incident to such distribution. However, in order to understand the Settlement Agreement, it is necessary to have some basic background concerning the benefits being paid to Pensioners, LTD Beneficiaries and Survivors, and the role of the HWT therein. The Monitor will provide more detailed information concerning the HWT and the benefits and their funding when the distribution motion is brought.

46. The HWT was established by agreement dated January 1, 1980 between Northern Telecom Limited[2] and Montreal Trust Company (as trustee), and amended by agreement made as of June 1, 1994 (the **"Trust Agreement"**). Nortel is the successor to Northern Telecom. The current trustee of the HWT is The Northern Trust Company, Canada, appointed by deed dated December 1, 2005. The Trust Agreement (and amendment thereto) is attached as Appendix "E" to this Report.

[2] Article IX of the Trust Agreement provides that where the word "Corporation" is used in the agreement, it will be deemed to mean and shall include successors of Northern Telecom Limited and any other company with which Northern Telecom may have amalgamated.

47. The Trust Agreement provides that the Applicants may designate certain of the following health and welfare plans, "or such other similar plan or plans as the Corporation may from time to time place in effect" as the Health and Welfare Plan: a health care plan, a management long term disability plan, a union long term disability plan, a management survivor income benefit plan, a management short term disability plan and a group life insurance plan. The Trust Agreement further provides that it is a health and welfare trust established to give effect to the Health and Welfare Plan. The HWT has been operated such that certain employee benefits have been paid by the HWT with trust assets, whereas other employee benefits have been funded by the Applicants on a pay-as-you-go basis, but paid through the HWT as an administrative matter.

48. Nortel established the HWT as a tax-efficient vehicle for providing health and welfare benefits to employees and former employees of the Applicants, and sought and obtained a tax ruling from Revenue Canada. The Monitor has been advised by its counsel that Nortel was under no statutory or other legal obligation to establish or to fund a health and welfare trust and there is no regulation applicable to the HWT. Based on the Monitor's review to date, the HWT has never had sufficient assets in the trust to pay the present value of all the benefits for all the plans that are designated under it nor was it legally required to do so.

49. The net assets of the HWT available for benefit payments at December 31, 2008 were approximately \$123 million, of which approximately \$37 million was represented by an amount "Due from Sponsoring Company". The Monitor has been advised by the

Applicants that this balance represents amounts due by the Applicants primarily related to benefit payments made to beneficiaries of the HWT prior to the Filing Date.

50. Attached to this Report are certain documents relevant to the HWT:

(a) Appendix "F" - The Valuation of Post-Employment Benefit Liabilities for Accounting Purposes as at December 31, 2008, prepared by Mercer;

(b) Appendix "G" - The Report on Non-Pension Post-Retirement Benefit Cost and Disclosure for the Fiscal Year ending December 31, 2008, prepared by Mercer; and

(c) Appendix "H" - The unaudited, internal financial statements for the HWT, dated December 31, 2008.

51. The majority of investments held in the HWT are of a long term nature. Their market value as at December 31, 2009 was approximately $78 million.

52. The HWT provides that the Applicants will pay fees or expenses related to the HWT. The Settlement Agreement provides that any fees or expenses incurred in connection with any dispute or litigation among the beneficiaries of the HWT concerning entitlement shall be paid out of the HWT corpus. All other expenses related to the termination of the HWT shall be paid by the Applicants.

(2) Payment of Benefits in the CCAA Proceedings

53. Pursuant to the Initial Order, the Applicants are permitted (but not required) to pay, among other things, employee benefits (including employee medical and similar benefit plans). The Applicants have been paying employee benefits including to Pensioners, LTD Beneficiaries and Survivors, since the commencement of the CCAA proceedings. The Applicants have continued to use the HWT in the CCAA proceedings as the most efficient, cost effective vehicle to provide for payment of benefits while the Applicants completed sale transactions and transitioned employees.

54. In 2009, employee and pensioner benefits (excluding benefits for working employees and pension plan benefits) paid on a pay-as-you-go-basis by the Applicants primarily through the HWT as an administrative matter totalled approximately \$22 million, with an additional approximate amount of \$19.1 million being paid from the corpus of the HWT. Pursuant to the Settlement Agreement, in 2010, employee and pensioner benefits in the aggregate amount of between \$35.4 million and \$39.9 million will be paid by the Applicants on a pay-as-you-go basis primarily through the HWT as an administrative matter, with an additional approximate amount of \$7.9 million being paid from the corpus of the HWT.

55. A full discussion of the payments made on a pay-as-you-go basis and from the corpus of the HWT since the making of the Initial Order, including in 2010, will be included in a subsequent Monitor's report that will be filed once a motion for Court approval of the distribution of the HWT is brought.

(a) Pay-as-You-Go Payments

(i) Pensioner Medical and Dental

56. Medical and dental benefits for the Applicants' pensioners (**"Pensioner M&D"**) historically were paid on a pay-as-you-go basis by the Applicants through the HWT as an administrative matter, which has continued throughout the CCAA proceedings.

57. The cost of the Pensioner M&D for 2009 was approximately \$16.7 million. For 2010, the estimated cost of the Pensioner M&D is between \$17.1 million and \$20.9 million.

58. Approximately 11,900 pensioners currently receive Pensioner M&D.

(ii) LTD Medical and Dental and LTD Life

59. Medical and dental benefits for the Applicants' employees in receipt of long term disability benefits (**"LTD M&D"**) were historically paid on a pay-as-you-go basis by the Applicants through the HWT as an administrative matter, which has continued throughout the CCAA proceedings.

60. Life insurance premiums for the Applicants' employees in receipt of long-term disability benefits (**"LTD Life"**) were historically paid on a pay-as-you-go basis by the Applicants through the HWT as an administrative matter, which has continued throughout the CCAA proceedings.

61. The cost of the LTD M&D and LTD Life for 2009 was approximately \$2.5 million. For 2010, the estimated cost of the LTD M&D and LTD Life is between \$2.1 million and \$2.6 million.

62. Approximately 400 employees (of whom approximately 150 are unionized, with approximately 100 of them being represented by the CAW, and approximately 250 are not unionized) are currently in receipt of LTD M&D and LTD Life.

(iii) Survivor Transition Benefits

63. Survivor transition benefits ("**STBs**") are income benefits for survivors of certain unionized former employees of the Applicants, payable for a five year period. STBs were historically paid on a pay-as-you-go basis by the Applicants, which has continued throughout the CCAA proceedings.

64. The cost of the STBs for 2009 was approximately $2.8 million. For 2010, the estimated cost of the STBs is approximately $2.8 million.

65. Approximately 308 survivors of former employees of the Applicants are currently in receipt of STBs.

(b) Formerly Funded by HWT But Pay-as-You-Go under the Settlement Agreement

(i) LTD Income

66. Income replacement benefits for employees of the Applicants in receipt of long term disability benefits ("**LTD Income**") were historically paid by the HWT from HWT assets, which has continued throughout the CCAA proceedings.

67. The cost of the LTD Income benefits for 2009 was approximately $12 million. For 2010, the estimated cost of the LTD Income benefits is between $12 million and $12.2 million.

68. Approximately 400 employees are currently in receipt of LTD Income benefits.

(ii) Survivor Income Benefits

69. Survivor income benefits ("**SIBs**") are life-time income benefits for survivors of certain non-unionized employees of the Applicants. SIBs are no longer offered but continue to be paid to a group of surviving spouses. SIBs were historically paid by the HWT from HWT assets, which has continued throughout the CCAA proceedings.

70. The cost of the SIBs for 2009 was approximately $1.4 million. For 2010, the estimated cost of the SIBs is approximately $1.4 million.

71. Approximately 82 survivors of former employees of the Applicants are currently in receipt of SIBs (with all individuals in receipt of SIBs and STBs being referred to herein as "**Survivors**").

(c) Funded by HWT

(i) Retiree Life

72. Life insurance premiums for the Applicants' pensioners ("**Retiree Life**") were historically paid by the HWT from HWT assets, which has continued throughout the CCAA proceedings.

73. The cost of the Retiree Life premiums for 2009 was approximately $5.7 million. For 2010, the estimated cost of the Retiree Life premiums is approximately $7.9 million.

74. Approximately 11,900 pensioners are currently covered by Retiree Life.

(3) Provision of Benefits under Settlement Agreement

75. As discussed above, through a series of Court approved sale transactions, many of the Applicants' operations have been sold. As a result, the Applicants and the Monitor considered the transitioning of the currently working employee benefits from existing plans as a next step in the restructuring to assist in the development of a Plan. It was timely therefore to consider termination of benefits for Pensioners, LTD Beneficiaries and Survivors, all of whom are not currently working for the Applicants. Following discussions with, among others, Settlement Representative Counsel, the Applicants agreed as part of the Settlement that:

(a) Pensioner M&D and LTD M&D will be funded solely from the Applicants' funds for the coverage period ending December 31, 2010 (the "**Medical and Dental Payments**"), provided that no Medical and Dental Payments claims submitted after February 28, 2011 shall be accepted, honoured or paid;

(b) LTD Life will be funded solely from the Applicants' funds and Retiree Life will be paid from the corpus of the HWT until December 31, 2010; and

(c) LTD Income, STBs and SIBs will be funded solely from the Applicants' funds in respect of the coverage period from January 1, 2010 to December 31, 2010 (the "**Income Payments**").

76. In the Monitor's view, the terms of the Settlement Agreement provide certainty to the Applicants and their stakeholders through establishing the date on which the Applicants will terminate payment of benefits to Pensioners, LTD Beneficiaries and Survivors,

facilitating the distribution of the HWT, provide advance notice of such termination and preserve the corpus of the HWT to the extent possible pending a Court approved distribution. The Settlement Agreement therefore also assists in an efficient transition of benefits for employees currently working, which will in turn assist in the development of a Plan.

(4) Pension Plans

77. The Applicants provide pension benefits to their employees and former employees (and their survivors) through two registered pension plans, the Nortel Networks Limited Managerial and Non-Negotiated Pension Plan (the "**Salaried Plan**") and the Nortel Networks Negotiated Pension Plan (the "**Union Plan**"). The Pension Plans are registered under provincial pension benefits standards legislation.

78. The Salaried Plan is a combination defined benefit and defined contribution pension plan. The Applicants amended the Salaried Plan several years ago to introduce a defined contribution component, which continues for active employees. The Union Plan is a defined benefit pension plan. Defined benefit pension plans provide that upon retirement plan members will receive a certain pension benefit and the plan sponsor is required to make sufficient contributions to the plan to pay such benefits. By contrast, defined contribution pension plans set out the amount that is required to be contributed to the plan, and the amount of pension a member will receive will depend entirely upon the contributions made and the return on same.

79. The terms of the Initial Order permitted but did not require current service contributions and special payments to continue to be made to the Pension Plans. However, the

Applicants made current service and special payments contributions to the Pension Plans throughout 2009. Current service contributions (applicable to defined benefit only) totalled approximately $3.3 million for 2009. For 2010 (up to September 30, 2010), the Applicants will make current service contributions in the amount of $3.4 million to the Pension Plans.

80. Special payments (applicable to defined benefit only) totalled approximately $22 million for 2009. For 2010 (up to March 31, 2010), special payments in the amount of $5.5 million will be made to the Pension Plans.

81. The aggregate amount of current service contributions and special payments made to the Pension Plans throughout 2009 was approximately $25.3 million. Pursuant to the Settlement Agreement, the Applicants will make further current service contributions and special payments to the Pension Plans in 2010 in the aggregate amount of $8.9 million.

82. The last actuarial valuation reports with respect to the Pension Plans were filed in September 2007 for the period ending December 31, 2006. The next actuarial valuation reports for the Pension Plans are not required to be filed under the *Pension Benefits Act* (the "**PBA**") until September 2010 for the period ending December 31, 2009. It is likely that a 2009 Valuation would indicate that the Pension Plans have significant deficits, requiring significantly increased special payments. Further, the Applicants as Administrator of the Pension Plans filed claims pursuant to the Claims Procedure Order in September, 2009 in respect of each of the Pension Plans, which have not yet been adjudicated or allowed, indicating an estimated total deficit of approximately $1.1 billion. Pursuant to the terms of the Settlement Agreement and the Settlement Approval Order:

(a) the Applicants will not be required to make special payments after March 31, 2010;

(b) the failure to make such payments and the claims in respect of the deficits will not result in any priority or trust under the PBA; and

(c) any claims for payments or contributions to the Pension Plans in excess of the Pension Payments and any deficit claim, to the extent allowed, will rank on a *pari passu* basis with the claims of the ordinary unsecured creditors of the Applicants.

83. The Applicants and the Monitor consider the transitioning of administration of the Pension Plans one of the next steps in the restructuring to assist in the development of a Plan as a result of the following factors:

(a) through a series of Court approved sale transactions, many of the Applicants' operations have been sold;

(b) approximately 13,000 Nortel employees have been transferred or will be transferred to the buyers of these business units, including 3,500 Canadian employees;

(c) there is reduced staff to administer the Pension Plans;

(d) the continuation of the Pension Plans and continued funding of the Pension Plans is not a viable option given Nortel's insolvency, the substantial reduction in operations and the size and complexity of the Pension Plans; and

(e) an organized transition of the Pension Plans will maximize efficiencies and minimize costs thus, among other things, potentially reducing deficit claims.

84. An option available to the Applicants was an immediate wind up of the Pension Plans. Following discussions with, among others, Settlement Representative Counsel, the Applicants agreed as part of the Settlement not to wind up the Pension Plans immediately. Instead, the Applicants agreed to:

(a) continue to make contributions to the Pension Plans in the same manner as they have been doing over the course of the CCAA proceedings, through March 31, 2010, in the aggregate amount of $2,216,254 per month (the "**March Pension Payments**");

(b) thereafter through to September 30, 2010, make only current service payments to the Pension Plans, in the aggregate amount of $379,837 per month (the "**September Pension Payments**", together with the March Pension Payments, the "**Pension Payments**"); and

(c) cease to administer the Pension Plans on September 30, 2010 at 11:59 p.m.

85. The Applicants and the Monitor are working on arrangements for continuing employees for the period commencing October 1, 2010. In the meantime, the Applicants have advised the Monitor that they intend to continue to pay contributions in respect of the defined contribution component of the Salaried Plan, relating solely to those employees currently working and those LTD Beneficiaries who participate in the defined

contribution component of the Salaried Plan. In this regard, the Applicants are asking that, for greater certainty, it be clear in the Settlement Approval Order that the provisions of the Settlement Approval Order and the Settlement Agreement stipulating the Applicants' contributions to the Pension Plans apply only to the defined benefit component of the Salaried Plan.

86. In the Monitor's view, the terms of the Settlement Agreement relating to the Pension Plans provide certainty to the Applicants and their stakeholders. The Settlement Agreement provides certainty through establishing:

(a) the date on which the Applicants will cease to administer the Pension Plans and make any further payments thereto;

(b) the type and exact amount of remaining payments that the Applicants will make to the Pension Plans;

(c) the consent of the Settlement Employee Representatives to the foregoing; and

(d) that, so long as the Applicants are the administrator of the Pension Plans, there will be no change to the plan terms of the Pension Plans without approval of the Court, and no change to the current asset mix or investment policies with respect to the Pension Plans other than at the request, and with the consent, of the Settlement Representative Counsel and the approval of the Court.

The Settlement Agreement therefore assists in an efficient transition of the Pension Plans, which will in turn assist in the development of a Plan.

Termination Fund

87. In addition to the continued payment of employee and pensioner benefits and contributions to the Pension Plans for a period of time, the Applicants have also agreed as part of the Settlement to make payments to eligible former employees as an advance against their claims in the CCAA proceedings.

88. Pursuant to the Settlement Agreement, the Applicants have agreed to create a pool of \$4.3 million (inclusive of certain Representative Counsel's costs to a maximum of \$100,000.00) (the "**Termination Fund**") as follows:

(a) the Termination Fund is for the benefit of those employees and former employees of the Applicants whose employment with the Applicants has been terminated or will be terminated prior to or on June 30, 2010 to whom amounts are or may become owing for termination or severance payments, who have not been offered employment with a purchaser of the Applicants' assets and who have not received or are not entitled to receive (i) a gross cumulative Annual Incentive Plan payment from and after October 1, 2009 of \$3,000 or more; or (ii) a Key Employee Incentive Plan or Key Employee Retention Plan payment in 2009; or (iii) payment from any Court approved equivalent 2010 plan (the "**Eligible Employees**");

(b) Eligible Employees shall be paid a maximum of \$3,000 (subject to applicable withholding taxes) from the Termination Fund (the "**Termination Payments**");

(c) any Termination Payments shall be credited against allowed claims of such individuals, which claims shall be correspondingly reduced; and

(d) to the extent that funds are unused in respect of terminations prior to or on June 30, 2010, or payment of Settlement Representative Counsel's costs referred to above, the Termination Fund may be used to make payments on account of terminations after June 30, 2010 or if such unused funds are to be used for another purpose, such purpose must be approved by the Court, on such basis as is agreed to between Representative Counsel and the Monitor.

89. The Applicants have advised the Monitor that the Applicants will, to the extent possible, attempt to accommodate requests to roll over Termination Payments into registered retirement savings plans.

90. In the Monitor's view, the establishment of the Termination Fund in the context of the Settlement Agreement is in the interests of both the Applicants and their stakeholders. Through the Termination Payments, Eligible Employees will receive a cash distribution subsequent to implementation of the Settlement; they do not need to wait until the implementation of a Plan to receive a cash payment. The Termination Payments will be credited against allowed claims of Eligible Employees. As part of the Settlement, Former Employees Representative Counsel will withdraw pending litigation in the Supreme Court of Canada seeking minimum standards severance payments. Litigation risk and cost to the Applicants and their creditors are therefore reduced.

Payments Charge

91. The Settlement Agreement provides that the Pensioners, LTD Beneficiaries and Former Employees are entitled to the benefit of a charge on the Applicants' Property (as defined in the Initial Order) to secure payment of the Medical and Dental Payments, Income Payments, Termination Payments and Pension Payments (the "**Payments Charge**") as follows:

(a) the amount of the Payments Charge will not exceed an aggregate amount of $57 million;

(b) the Payments Charge will rank subordinate in priority to the Inter-company Charge (as defined in the Initial Order);

(c) the Payments Charge will apply in these proceedings and in any subsequent bankruptcy or receivership; and

(d) the maximum amount secured by the Payments Charge will be reduced as the Medical and Dental Payments, Income Payments, Termination Payments and Pension Payments are made by an amount equal to each such payment made and the Payments Charge will be extinguished once the last such payment is made (as evidenced by a Monitor's certificate).

92. As discussed below, the Applicants have sufficient funds to meet their payment obligations under the Settlement Agreement. However, in the Monitor's view, it is

appropriate in all the circumstances to give those entitled to payments under the Settlement Agreement the additional security provided by the Payments Charge.

Ranking of Claims and Releases

93. Various provisions of the Settlement Agreement and the Settlement Approval Order, including those barring and releasing claims, establish the ranking of HWT Claims and Pension Claims as ordinary unsecured claims on a *pari passu* basis with the claims of ordinary unsecured creditors of the Applicants, thereby reducing uncertainty with respect to what will likely be significant claims against the Applicants.

94. The terms of the Settlement Agreement and the Settlement Approval Order include the following provisions limiting and barring certain claims (please refer to the Settlement Agreement and the Settlement Approval Order for the full text of the barring provisions):

(a) any Pension Claims made in the CCAA proceedings or any subsequent receivership, bankruptcy or any other proceedings concerning the Applicants or any Nortel Worldwide Entity or the Pension Plans shall, to the extent that they are allowed pursuant to any claims adjudication procedure established in such proceedings, rank as ordinary unsecured claims on a *pari passu* basis with the claims of ordinary unsecured creditors of the Applicants and shall not attract any lien or deemed trust status;

(b) no person shall assert any Pension Claim other than as an ordinary unsecured claim ranking on a *pari passu* basis with the claims of ordinary unsecured creditors;

(c) the portion of the proofs of claim already filed or subsequently filed by the Superintendent, as administrator of and on behalf of the PBGF, by the Applicants, by any Employee Claimants or any other person, asserting or advancing priority or preferential treatment of any kind be disallowed but only as to the claim for priority or preferential treatment[3];

(d) any HWT Claims made in these proceedings or in any subsequent receivership, bankruptcy or any other proceedings concerning the Applicants, any Nortel Worldwide Entity or the HWT shall, to the extent they are allowed against the Applicants pursuant to any claims adjudication procedure established in such proceedings, rank as ordinary unsecured claims on a *pari passu* basis with the claims of ordinary unsecured creditors of the Applicants, and no part of any such HWT Claims shall rank as a preferential or priority claim or shall be the subject of a constructive trust or trust of any nature or kind; and

(e) no person shall assert any HWT Claim other than as an ordinary unsecured claim ranking on a *pari passu* basis with the claims of ordinary unsecured creditors.

95. By the terms of the Settlement Agreement and the Settlement Approval Order, the following releases are granted (please refer to the Settlement Agreement and the Settlement Approval Order for the full text of the releases):

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[3] The provisions described in subparagraphs (a), (b) and (c) only apply to claims by the Superintendent on behalf of the PBGF and any administrator appointed by the Superintendent if: (a) the Pension Payments are made in accordance with the Settlement Agreement; and (b) no bankruptcy order is made with respect to the Applicants on or before September 30, 2010.

(a) a release in favour of the Releasees, the CAW, the Representatives, the Superintendent, as administrator of and on behalf of the PBGF,[4] and their legal counsel and financial advisors and each of the heirs, executors, administrators, legal representatives, successors and assigns of each of the foregoing from any and all direct and indirect claims related to (i) the Pension Plans, and (ii) the HWT, provided that nothing in the release shall release a director of the Applicants from any matter referred to in subsection 5.1(2) of the CCAA or with respect to fraud on the part of any Releasee, with respect to that Releasee only; and

(b) a release in favour of the Nortel Releasees from any and all direct and indirect claims that the Pension Claims and the HWT Claims, or any part thereof, rank as a preferential or priority claim over the claims of ordinary unsecured creditors of the Applicants, as a trust (whether deemed or otherwise) or a lien or charge, or under any other legal or equitable theory.

96. By the terms of the Settlement Agreement, under no circumstances shall any CCAA Plan of Arrangement in the Nortel proceedings be proposed or approved: (i) if it provides for separate classification of any Pension HWT Claimants from ordinary unsecured creditors of Nortel, including, without limitation, bondholders and Nortel Networks Inc.; or (ii) if the Pension HWT Claimants and the other ordinary unsecured creditors of Nortel do not

[4] In the case of the Superintendent, as administrator of and on behalf of the PBGF, the release set out in the Settlement Approval Order is only effective if the provisions of the Settlement Approval Order described in subparagraphs 94(a)(b)(c) above apply (please refer to the previous footnote for a description of when such provisions apply).

receive the same *pari passu* treatment of their allowed ordinary unsecured claims against Nortel pursuant to the Plan.

97. In the event of a bankruptcy of the Applicants, notwithstanding any provision of the Settlement Agreement, if there is an amendment to any provision of the *Bankruptcy and Insolvency Act* that changes the current, relative priorities of the claims against the Applicants, no party is precluded by the Settlement Agreement from arguing the applicability or non-applicability of any such amendment in relation to any such claim (as found in both the Settlement Agreement and the Settlement Approval Order, the "**No Preclusion Clause**").

98. In the Monitor's view, the Settlement Agreement and the Settlement Approval Order, including the provisions respecting the ranking of HWT Claims and Pension Claims as ordinary unsecured claims and the various releases, represent an important step in resolving issues related to claims and potential claims against the Applicants, which will assist in the development of a Plan.

Retaining Resources Necessary to Continue Restructuring

99. Although the Applicants have made significant progress to date in the CCAA proceedings, there is still work to be done. As set out in the Thirty-Seventh Report, the Monitor is of the view the commitment and retention of remaining employees will be essential to the execution of obligations pursuant to TSAs, the completion of the Applicants' restructuring (including assisting in sales of remaining assets) and the completion of a Plan. Accordingly, the Monitor supported the Applicants' request for

approval of an employee incentive plan and for certain payments to be made under the Applicants' previously approved 2009 KEIP and 2009 KERP to participants thereunder.

100. In recognition of the importance of retaining sufficient resources necessary to complete the restructuring for the benefit of the Applicants' stakeholders, as part of the Settlement the Representatives, on their own behalf and on behalf of those they represent (and the Superintendent, as part of the Letter Agreement), agreed not to oppose: (i) any employee incentive program, including any charge therefor, that is determined by the Monitor to be reasonable and necessary for the continued operation of the Applicants; and (ii) the creation of a trust with respect to claims or potential claims against persons who accept directorships of a Nortel Worldwide Entity in order to facilitate the restructuring, provided that certain conditions are met.

<u>Avoiding Litigation Costs</u>

101. Provisions of the Settlement Agreement and the Settlement Approval Order result in the release of certain rights and claims primarily concerning pension plan administration, HWT administration and priorities (see paragraphs 94 and 95 above). The Monitor understands that the releases were part of the settlement process necessary in order for the Representatives, on their own behalf and on behalf of those they represent, to achieve certainty of payment of employee benefits and pension benefits, an achievement that Settlement Representative Counsel expressed as important to their constituents in the process leading up to the Settlement.

102. The release of certain claims and rights is an important step in the development of a Plan. The releases assist in claim determination and reduce the risk of litigation against the

Applicants and their directors (who benefit from a priority charge pursuant to the Initial Order); thereby reducing the risk that assets would be depleted in order to fund potentially significant litigation costs.

103. The Monitor will not comment on the relative risks or potential success of any claims released as part of the Settlement; however, the Monitor is of the view that the releases represent a fair balancing of interests given the certainty achieved regarding employee benefits and the avoidance of potential litigation risks and costs and disruption to the development of a Plan.

Financial Capacity to Fulfil Terms of Settlement

104. On January 21, 2010, this Honourable Court issued an order approving the CFSA. The CFSA addresses the Applicants' liquidity requirements through the anticipated completion of transition services activities and plan development.

105. The CFSA allows the Applicants some flexibility in their spending; however, the Applicants must have sufficient liquidity to meet their contractual obligations to provide transition services pursuant to the various business sales they have concluded and outlays related to their corporate activities. The Applicants have worked closely with the Monitor to analyze their financial capacity to fulfill the terms of the Settlement Agreement. The Monitor believes the liquidity provided by the CFSA is sufficient for the Applicants to fulfil the terms of the Settlement Agreement and carry on with their restructuring.

Implications Absent the Settlement

106. In the Monitor's view, absent the Settlement:

(a) it would be difficult to achieve consensus on the continuation of company funding for: (a) benefits to individuals not actively engaged in the operation of the Applicants' businesses; and (b) pension payments;

(b) there would be a greater risk of immediate termination of benefits to Pensioners, LTD Beneficiaries and Survivors, leading to greater hardship and disruption;

(c) there would be a greater risk of litigation regarding pension claims and claims in respect of the HWT, leading to increased costs to the Applicants (and therefore the Applicants' creditors), uncertainty and potential disruption to the development of a Plan; and

(d) the transition of benefits for currently working employees might be disrupted.

Summary

107. In total, the Settlement Agreement provides for payments of approximately $57 million in Benefits and Pension Plan contributions in 2010 and Termination Payments. Beneficiaries of the HWT, including Pensioners, LTD Beneficiaries and Survivors, maintain their rights in respect of the HWT. Further, all employee claims allowed against the Applicants are maintained as ordinary unsecured claims.

108. The Settlement Agreement addresses certain issues, which include:

(a) providing affected parties with certainty as to the time frame in which the unavoidable cessation of benefits and transfer of the Pension Plans will occur and advance notice of the transition by allowing for:

(i) continuation of disability income benefits, medical, life and dental benefits for LTD Beneficiaries until December 31, 2010;

(ii) continuation of medical, life and dental benefits to pensioners until December 31, 2010;

(iii) continuation of survivor income and survivor transition income benefits until December 31, 2010;

(iv) continuation of special payment contributions to the Pension Plans until March 31, 2010; and

(v) continuation of current service funding of the Pension Plans until September 30, 2010;

(b) preservation of the corpus of the HWT (for an anticipated distribution in 2010 of the HWT corpus to its beneficiaries entitled thereto);

(c) provision to Eligible Employees of a cash payment to be credited against their allowed claims;

(d) provision to parties receiving or entitled to receive employee and pensioner benefits, pension benefits and Termination Payments with a charge over the Applicants' property to secure such payments;

(e) reduction of uncertainty with respect to what will likely be significant claims against the Applicants through the ranking of claims relating to the Pension Plans and the HWT as ordinary unsecured claims on a *pari passu* basis with the claims of the ordinary unsecured creditors of the Applicants; and

(f) provision of transition without litigation (and the associated costs) on certain major issues relating to the Applicants' restructuring.

RECOMMENDATION

109. The Monitor believes that, overall, the Settlement Agreement and Settlement Approval Order represent a fair balancing of the interests of the Applicants' stakeholders and an important step in the implementation of the Applicants' restructuring, arrived at after extensive negotiations among the Applicants, Monitor, Settlement Representative Counsel, Settlement Employee Representatives, CAW, Superintendent, and counsel to the Committee and the Bondholder Group. The Monitor recommends this Honourable Court approve the Settlement Agreement and grant the Settlement Approval Order on the terms and conditions substantially in the form as submitted by the Applicants.

All of which is respectfully submitted this 18th day of February, 2010.

ERNST & YOUNG INC.
In its capacity as Monitor of the Applicants

Per:

Murray A. McDonald
President

Court File No. 09-CL-7950

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF NORTEL NETWORKS CORPORATION, NORTEL NETWORKS LIMITED, NORTEL NETWORKS GLOBAL CORPORATION, NORTEL NETWORKS INTERNATIONAL CORPORATION AND NORTEL NETWORKS TECHNOLOGY CORPORATION

SUPPLEMENT TO THIRTY-NINTH REPORT OF THE MONITOR DATED FEBRUARY 23, 2010

PURPOSE

1. This supplement to the Thirty-Ninth Report of the Monitor ("**Supplemental Thirty-Ninth Report**") is provided in reference to the Monitor's Thirty-Ninth Report dated February 18, 2010 (the "**Thirty-Ninth Report**"). The purpose of this Supplemental Thirty-Ninth Report is to provide:

    (a) copies of additional information the Monitor received from Mercer following issuance of the Thirty-Ninth Report regarding Canadian non-pension post-employment benefits and post-retirement benefits (collectively, the "**Non-Pension Benefits**");

    (b) clarification on the summary table included in the Thirty-Ninth Report at paragraph 42; and

(c) an update on inquiries the Monitor, its counsel and Settlement Representative Counsel have received relating to the Settlement from Affected Settlement Notice Parties.

TERMS OF REFERENCE

2. In preparing this Supplemental Thirty-Ninth Report, EYI has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company and discussions with management of Nortel. EYI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and accordingly, expresses no opinion or other form of assurance on the information contained in this Supplemental Thirty-Ninth Report. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

3. Capitalized terms not defined in this Supplemental Thirty-Ninth Report are as defined in the Thirty-Ninth Report.

GENERAL BACKGROUND

4. The Thirty-Ninth Report was filed in support of the Applicants' motion for approval of the Settlement Approval Order and contained information on or relevant to the Settlement, including:

(a) information concerning the Benefits and the HWT, to the extent relevant, and, in this regard, attached the following documents as appendices to the Thirty-Ninth Report:

(i) Appendix "F" - The Valuation of Post-Employment Benefit Liabilities for Accounting Purposes as at December 31, 2008, prepared by Mercer; and

(ii) Appendix "G" - The Report on Non-Pension Post-Retirement Benefit Cost and Disclosure for the Fiscal Year ending December 31, 2008, prepared by Mercer; and

(b) a summary of estimated payments the Applicants will make pursuant to the Settlement Agreement, in a table format.

INFORMATION ON THE HWT

5. Following the issuance of the Thirty-Ninth Report, the Monitor received information on the Non-Pension Benefits as at December 31, 2009. The information was provided to the Monitor from Mercer, after certification by the Company. The information on Non-Pension Benefits (as prepared by Mercer) available at the time of the issuance of the Thirty-Ninth Report was as at December 31, 2008 and was attached as Appendices "F" and "G" to the Thirty-Ninth Report.

6. The Monitor has prepared this Supplemental Thirty-Ninth Report in order to provide this Honourable Court, the Service List and any other interested parties (in the case of other interested parties, by way of posting on the Monitor's website at www.ey.com/ca/nortel) with the most recent information prepared by Mercer on the Non-Pension Benefits. Accordingly, attached as Appendices hereto are the following documents prepared by Mercer:

(a) Appendix "A" - Canadian Post Employment Benefits Accounting In Accordance with CICA 3461 and US Accounting Standards for Fiscal 2009 (the "**Mercer Post Employment Benefits Accounting**") ; and

(b) Appendix "B" - Report on Non-Pension Post Retirement Benefit Cost and Disclosure for the Fiscal Year Ending December 31, 2009.

7. The Mercer Post-Employment Benefits Accounting contains a note that it replaces the February 2, 2010 Letter. In a letter dated February 23, 2010 (a copy of which is attached hereto as Appendix "C") (the "**Mercer February 23 Letter**"), Mercer advised the Monitor that the only difference between the February 2, 2010 Letter and the Mercer Post-Employment Benefits Accounting is that the latter includes, in the Mercer opinion letter thereto, a reference to Nortel advising Mercer that Nortel intends to account for the cessation of payment of non-pension benefits after December 31, 2010 as a subsequent event that would be accounted for in fiscal 2010 or later.

SUMMARY TABLE

8. This Supplemental Thirty-Ninth Report does not change the amount of any of the estimated payments the Applicants will make pursuant to the Settlement Agreement and as set out in the table at paragraph 42 of the Thirty-Ninth Report.

9. For purposes of clarification, the table at paragraph 42 of the Thirty-Ninth Report that summarizes certain benefit payments refers to an approximate amount for Pensioner M&D that is higher than the range indicated at paragraph 57 of the Thirty-Ninth Report. This is because the value in the table includes the estimated cost of Pensioner M&D

which would be paid in 2011, but referable to medical and dental claims made in respect of 2010, in the amount of approximately $3.5 million. Similarly, the table at paragraph 42 of the Thirty-Ninth Report refers to an approximate amount for LTD M&D and LTD Life that is higher than the range indicated at paragraph 61 of the Thirty-Ninth Report, because it includes those benefits which would be paid in 2011, but referable to claims made in respect of 2010, in the aggregate approximate amount of $400,000.

UPDATE ON INQUIRIES RECEIVED

10. As early as February 9, 2010, following the issuance of the press releases referred to in paragraph 37 of the Thirty-Ninth Report, the Monitor started receiving inquiries relating to the Settlement on its toll-free help line. The number of inquiries the Monitor has received has increased following issuance of the Notice Letter and publication of the Notice Letter in a number of newspapers in accordance with the Notice Procedure Order. The majority of inquiries received on the Monitor's toll-free help line are from pensioners inquiring about the impact of the Settlement on the Pension Plans.

11. During the week ended February 13, 2010 (following the issuance of the press releases on February 8, 2010), the Monitor received approximately 15 inquiries on its toll free help line.

12. During the week ended February 20, 2010 (following the issuance of the Notice Letter and the publication of the Notice Letter in a number of newspapers), the Monitor received approximately 260 inquiries on its toll free help line.

13. In addition to inquiries received on the Monitor's toll free help line, the Monitor and its counsel, Goodmans LLP, are also receiving inquiries by email and fax (although the level of inquiries through these mediums is much lower). To date, the Monitor and Goodmans LLP have received approximately 15 inquiries by email or fax.

14. The Monitor has been advised by Settlement Representative Counsel that it has received approximately 275 inquiries on its toll free help line and by email. Settlement Representative Counsel has advised that the majority of these inquiries have been received on its toll free help line.

15. In response to certain inquiries received, the Settlement Agreement has been translated into French. The French translation of the Settlement Agreement will be available on the Monitor's website at **"www.ey.com/ca/Nortel"** today.

All of which is respectfully submitted this 23nd day of February, 2010.

ERNST & YOUNG INC.
In its capacity as Monitor of the Applicants

Per:

Murray A. McDonald
President

APPENDIX A - CANADIAN POST EMPLOYMENT BENEFITS ACCOUNTING IN ACCORDANCE WITH CICA 3461 AND US ACCOUNTING STANDARDS FOR FISCAL 2009

Ellen Whelan, FSA, FCIA
Principal

161 Bay Street, P.O. Box 501
Toronto, Ontario M5J 2S5
416 868 2124 Fax 416 868 8999
ellen.whelan@mercer.com
www.mercer.ca

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

23 February 2010 (Replaces 2 February 2010 letter)

Elizabeth Smith
Global Pension and Other Post-Employment
Benefit Accounting and Control
Nortel Networks Inc.
220 Athens Way, Suite 300
Nashville, TN 37228

Private & Confidential

Subject: Canadian Post Employment Benefits Accounting In Accordance with CICA 3461 and US Accounting Standards for Fiscal 2009

Dear Elizabeth:

Mercer was requested by Nortel Networks Corporation ("Nortel") to calculate the Post Employment Obligations as at December 31, 2008 and December 31, 2009. In accordance with our mandate, the purpose of these valuations is to enable Nortel to account for the plan cost for fiscal 2009 and prepare year end disclosure information as at December 31, 2009 in accordance with Canadian Institute of Chartered Accountants Handbook Section 3461 ("CICA 3461") and US accounting standards as issued by the Financial Accounting Standards Board ("US accounting standards").

The results provided in this report and have been determined using methods and assumptions appropriate for financial reporting purposes and may not be appropriate for other purposes such as funding the benefits.

In February 2010, we have been notified by Nortel that they will stop paying non-pension benefits after December 31, 2010. We have also been advised by Nortel that it intends to account for this event as a subsequent event. Any required curtailment and settlement in this respect would be accounted for in fiscal 2010 or later.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

The following post employment benefit plans for Canadian members are included in the valuation results presented in this report:

- Short Term Disability (STD) Benefits (including continuation of Life insurance, Medical and Dental)
- Long Term Disability (LTD) Income Benefits
- Continuation of Life Insurance, Medical and Dental Benefits during LTD
- Survivor Income Benefits (SIB) – Non-Union
- Survivor Transition Benefits (STB) – Union
- Continuation of DC pension contributions while disabled

Note that our report does not include other post employment benefits that Nortel may provide that are not listed above. In particular, this report does not include obligations for the continuation of employee paid optional life insurance plan to disabled employees, as we understand that Nortel is not responsible to pay for such coverage. The assets currently held in a H&W Trust have not been used in the determination of the accounting obligations or accounting expense provided in this report as we understand that the funds do not meet the definition of an asset for accounting purposes for these plans.

Valuation Results

The following summarizes the estimated benefit obligations as at December 31, 2009 and December 31, 2008 as well as the incremental expense that should be booked for fiscal 2009:

All amounts in $000s (Cdn.)

Post Employment Benefits (PEB)	31.12.09	31.12.08	Incremental Expense (Difference)
STD including continuation of Life, Medical and Dental	$200	$200	$0
LTD	105,600	104,600	1,000
Basic Life, Medical and Dental benefits during LTD	26,000	30,000	(4,000)
Survivor Benefits (SIB/STB)	19,800	23,000	(3,200)
DC Contributions during LTD	900	1,000	(100)
Total	**$152,500**	**$158,800**	**($6,300)**

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Under US accounting standards, the annual benefit cost (i.e. expense) is determined as the sum of the change in the unfunded liability during the year plus the actual cash payments for the post employment benefits made in the year. We understand that cash payments have been expensed when made and therefore Nortel need only record the incremental expense at this time of an income of $6.3M. While CICA 3461 would permit the amortization of gains or losses, we understand that Nortel has chosen to recognize gains and losses immediately for Canadian GAAP reporting purposes and therefore the above figures are appropriate for both Canadian and US reporting.

The following changes have been made to the valuation data and assumptions as at December 31, 2009 compared to the assumptions as at December 31, 2008:

- Disabled member data has been updated as at September 31, 2009;
- Per disabled member medical and dental claims cost assumptions have been updated to reflect 2008 and 2009 claims for the Union plan and 2009/2010 flex credits and contributions for the Non-Union plan;
- The termination assumption (includes mortality and recovery) has been changed to the Canadian Group Long Term Disability Termination Experience 1988-1997, from the GLTD 87 table with CIA modifications for the LTD benefits, and the continuation of medical, dental and life insurance benefits;
- For the SIB/STB benefits, the mortality assumption has been changed to the RP 2000 table with full generational projected improvements from the RP 2000 table with projected improvements to 2017;
- The LTD indexing has been changed to 2.5% per annum from 1.25% per annum. (Nortel's plan determines the actual benefit increase as 60% of the assumed inflation); and
- The discount rate for all benefits has been changed to 3.10% per annum from 2.10% per annum.

All of our valuation results include estimates of future obligations for administrative charges and applicable taxes that would be expected to be incurred to administer the plan in the future.

Summaries of the membership data, valuation methods and actuarial assumptions, and plan provisions used in calculating the obligations are provided in the attached Appendices A, B and C.

Statement of Opinion

After checking with representatives of Nortel, to the best of our knowledge, there are no events subsequent to the valuation date which, in our opinion, would have a material impact on the results of the valuation.

The valuations of the Plan were performed in accordance with generally accepted principles and procedures. The methods used in the valuations of benefit obligations and determination of plan costs were selected by Management in accordance with the requirements of CICA 3461 and US accounting standards.

Nortel's Management has selected the assumptions used in the valuations of the plan obligations and determination of plan costs. They are Management's best-estimate assumptions, selected for accounting purposes, in accordance with CICA 3461 and US accounting standards. These assumptions are in accordance with accepted actuarial practice and we believe each of these assumptions is reasonable.

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In my opinion,

- The data on which the valuations are based are sufficient and reliable for the purposes of the valuations, and
- The calculations have been made in accordance with the requirements of CICA 3461 and US accounting standards.

This report has been prepared and my opinion given, in accordance with accepted actuarial practice in Canada.

Professional Qualifications

We are available to answer any questions on the material contained in this report or to provide explanations or further details, as may be appropriate. I, Ellen Whelan, the undersigned credentialed actuary, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any relationship, including investments or other services that could create a conflict-of-interest that would impair our objectivity.

Respectfully submitted,

Ellen Whelan

Ellen Whelan	February 18, 2010
Fellow of the Canadian Institute of Actuaries	Date
Fellow of the Society of Actuaries	

Mercer (Canada) Limited, 161 Bay Street, P.O. Box 501, Toronto, Ontario M5J 2S5
Telephone: 416 868 2124 (E. Whelan)

Copy:
Leila Wong, Nortel Networks Corporation
Paul Forestell, Mercer
Teresa Palandra, Mercer
Yeh-Ching Seto, Mercer
Erica Yu, Mercer

Appendix A

Membership Data

The valuation is based on membership data as at September 30, 2009. We have used and relied on financial and membership data supplied by Nortel and Sun Life. Plan membership data are summarized below.

We have not independently verified the accuracy or completeness of the data except to the extent required by generally accepted professional standards and practices. Mercer will not be held responsible for any liability arising from the use of incomplete, inaccurate or not up-to-date data or documentation. We have applied tests for internal consistency, as well as for consistency with the data used for the previous valuation. These tests were applied to membership reconciliation, basic information (date of birth, date of hire, date of membership, gender, etc.), earnings, and service. The results of these tests were satisfactory.

	30.09.09
STD	
Estimated STD Payments for year ending[1]	$2.4 million[2]
LTD Income Benefits, Medical and Dental Benefits	
Number of disabled members	399
Average net monthly income benefits	$2,482
Average age at disablity	41.2
Average duration since disability	12.9 years
Life –Union	
Number of disabled members – Basic Life Insurance	150
Average age at disability	40.1
Average duration since disability	16.2
Average Basic Life Insurance	$46,384
Life – Non-Union	
Number of disabled members – Basic Life Insurance	236
Average age at disability	42.2
Average duration since disability	10.8
Average Basic Life Insurance	$64,506
STB – Union	
Number of SIB recipients	11
Average age	58.6
Average Monthly benefit amount	$586
SIB – Non-Union	
Number of SIB recipients	82
Average age	69.4
Average Monthly benefit amount	$1,394

1 These amounts exclude benefits provided in the first five days of STD payments as this period is not tracked by Nortel.

2 Payments are estimated by taking the October 2007 – September 2008 payments and increased by 3.0%.

Appendix B

Valuation Methods and Assumptions

Cost Method

Obligation figures provided in this report represent the full present value of benefits expected to be received for all disabled members and their dependents and surviving spouses.

Funding Policy

The benefits are defined benefit plans funded on a pay as you go basis (Nortel funds on a cash basis as benefits are paid).

Accounting Policy

Under US accounting standards, the annual benefit cost (i.e. expense) is determined as the sum of the change in the unfunded liability during the year plus the actual cash payments for the post employment benefits made in the year. We understand that cash payments have been expensed when made. Nortel has chosen to recognize gains and losses immediately for Canadian GAAP reporting purposes also and therefore the same figures apply for both Canadian and US reporting.

Summary of Assumptions

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people who are paid benefits, the amount of plan expenses and taxes, and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, actuarial assumptions, as described below, were selected to produce a single scenario from the range of possibilities. The results of that single scenario are included in this report. However, as you know, the future is uncertain and the plan's actual experience will likely differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of legislated changes to government coverage, plan experience, changes in expectations about the future, especially interest rates, inflation and health care trend rates.

STD and Continuation of Benefits while on STD

Income benefit	8.3% of October 2008 to September 2009 STD payments
Medical, Dental and Life Insurance Benefits	14% of obligation for income payments

LTD and Continuation of Medical/Dental Benefits while on LTD

Discount rate	▪ 3.10% per annum as at December 31, 2009 ▪ 2.10% per annum as at December 31, 2008		
COLA increase for members with indexed benefits	▪ 60% of 2.50% per annum at December 31, 2009 ▪ 60% of 1.25% per annum at December 31, 2008		
Medical trend rate	9.0% per annum in 2009 grading down linearly to 5.0% per annum in and after 2028.		
Dental trend rate	4.75% per annum		
CPP offset	LTD claimants that are within the first three years of disability and do not currently have a CPP offset are assumed to be approved for a $375/month CPP disability payment in the future.		
Termination Rate (due to Mortality, Termination and Recovery) Assumption	▪ Canadian Group Long Term Disability Termination Experience 1988-1997 as at December 31, 2009 ▪ GLTD 87 with CIA modifications as at December 31, 2008		
Percentage married	80% of union employees are assumed to be married. Actual flex election used for non-union.		
Administration and taxes on LTD Income Benefit	10.95% on liability		
Assumed 2009 claim cost per disabled employee per year (includes administration costs and taxes)(see summary attached C-9, C-10)		**Union**	**Non-Union**
	Medical	$7,098	$2,256 (average of flex options)
	Dental	$1,008	$1,202 (average of flex options)
Incurred But Not Reported Reserve (IBNR)	The IBNR reserve was estimated by applying a reserve factor on the assumed number of IBNR claims. The key assumptions used are as follows:		
		Nortel Networks	**Nortel Technology**
	Disability Incidence Rates	3.5/1,000 employees	3.5/1,000 employees
	Reporting Lag on Claims	7 months	6 months
	Number of Employees	2,554	1,685
	Average Gross Benefit	$3,700/month	$3,700/month

Life (Self-Insured Waiver of Premium)

Discount rate	▪ 3.10% per annum as at December 31, 2009 ▪ 2.10% per annum as at December 31, 2008
Termination Rate (due to Mortality, Termination and Recovery) Assumption	▪ Canadian Group Long Term Disability Termination Experience 1988-1997 as at December 31, 2009 ▪ GLTD 87 with CIA modifications as at December 31, 2008
Administration and taxes on Life Waiver Benefit	7.95% of liability

SIB (Non-Union)/STB (Union)

Discount rate	▪ 3.10% per annum as at December 31, 2009 ▪ 2.10% per annum as at December 31, 2008
Mortality table	▪ RP 2000 no collar mortality table with full generational projected improvements as at December 31, 2009 ▪ RP 2000 no collar mortality table with projected improvements to 2017 as at December 31, 2008
Administration costs and taxes on income payments	9.46% of claims
Incurred But Not Reported Reserve (IBNR)	The IBNR Reserve is estimated to be negligible as there would only be a liability for STB and the liability for this five-year benefit is estimated to be small. There are no IBNR reserves related to SIB as the benefit is no longer provided to non-union employees. The reserve for the known claimants is assumed to be sufficient to cover IBNR reserves.

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Union Per Disabled Member Claims

Health	Jan08-Dec08			Jan09-Aug09	
	Annualized Claims			Annualized Claims	
	1	1		0.666666667	0.666666667
	Employee:	**Rest of Family:**		**Employee:**	**Rest of Family:**
Aggregate Claims	**838,941.08**	**227,440.97**		**502,933.78**	**124,477.07**
Headcount:	**229**	**189**		**209**	**174**
Per Capita:	**3,663.50**	**1,203.39**		**2,406.38**	**715.39**
Monthly:	**305.29**	**100.28**		**300.80**	**89.42**
Load:	**125%**	**100%**		**125%**	**100%**
Marital Assumption:	**n/a**	**80%**		**n/a**	**80%**
Disabled Claim Cost:	**461.84**			**447.54**	
Weighting	25%			75%	
Trend	1.21			1.109	
Monthly Weighted Ave Health Claim Cost:				512	
		Admin	1.08		
		Taxes	1.07		
		Total Monthly		592	
		Annual		7,098	

Dental	Jan08-Dec08			Jan09-Aug09	
	Annualized Claims			Annualized Claims	
	1	1		0.666666667	0.666666667
	Employee:	**Rest of Family:**		**Employee:**	**Rest of Family:**
Aggregate Claims	**85,502.12**	**86,334.89**		**60,112.16**	**57,896.81**
Headcount:	**227**	**184**		**207**	**170**
Per Capita:	**376.66**	**469.21**		**290.40**	**340.57**
Monthly:	**31.39**	**39.10**		**36.30**	**42.57**
Load:	**100%**	**100%**		**100%**	**100%**
Marital Assumption:	**n/a**	**80%**		**n/a**	**80%**
Disabled Claim Cost:	**62.67**			**70.36**	
Weighting	25%			75%	
Trend	1.09725625			1.051558733	
Monthly Weighted Average Dental Claim Cost:				72.68	
		Admin	1.08		
		Taxes	1.07		
		Total Monthly		83.99	
		Annual		1,008	

Non-Union Per Disabled Member Claims

E000	Single
E001	Ee + Ch
E002	Ee + Sp
E003	Family
E004	Waived

MEDICAL

Mid-Point:	
Experience Period:	7/1/2009
Valuation Year:	4/1/2010
Elapse:	0.7507
Trend:	10%

		Claim Cost	Contributions /(Credits)	Load	Loaded Claim Cost	Trended Claim Cost Per Person (includes tax and admin)
Employee	E000COMP	740.25	-	200%	1,481	1,590
Employee	E000IHSE	1,850.02	277	200%	3,423	3,677
Employee	E000PLUS	843.22	150	200%	1,536	1,650
Employee	E000SMED	1,850.02	277	200%	3,423	3,677
Child	E001COMP	295.20	-	100%	1,776	1,907
Child	E001IHSE	812.75	349	100%	3,887	4,175
Child	E001PLUS	493.87	206	100%	1,824	1,960
Child	E001SMED	812.75	349	100%	3,887	4,175
Spouse	E002COMP	388.61	-	100%	1,869	2,008
Spouse	E002IHSE	2,108.38	554	100%	4,977	5,347
Spouse	E002PLUS	769.18	311	100%	1,995	2,143
Spouse	E002SMED	2,108.38	554	100%	4,977	5,347
Family	E003COMP	683.81	-	100%	2,164	2,325
Family	E003IHSE	2,921.13	838	100%	5,506	5,915
Family	E003PLUS	1,263.05	466	100%	2,333	2,507
Family	E003SMED	2,921.13	838	100%	5,506	5,915
Waived	E004WAIV	740.25	-	200%	1,481	1,590

DENTAL

Mid-Point:	
Experience Period:	7/1/2009
Valuation Year:	4/1/2010
Elapse:	0.7507
Trend:	4.75%

		Claim Cost	Contributions /(Credits)	Load	Disabled Claim Cost	Trended Annual Claim Cost (includes tax and admin)
Employee	E000COMP	601.01	-	100%	601	622
Employee	E000IHSE	-	-	100%	-	-
Employee	E000PLUS	813.53	97	100%	717	742
Employee	E000SMED	-	-	100%	-	-
Child	E001COMP	672.83	-	100%	1,274	1,319
Child	E001IHSE	-	-	100%	-	-
Child	E001PLUS	1,105.77	136	100%	1,666	1,746
Child	E001SMED	-	-	100%	-	-
Spouse	E002COMP	434.30	-	100%	1,035	1,072
Spouse	E002IHSE	-	-	100%	-	-
Spouse	E002PLUS	632.67	248	100%	1,101	1,140
Spouse	E002SMED	-	-	100%	-	-
Family	E003COMP	1,107.12	-	100%	1,708	1,769
Family	E003IHSE	-	-	100%	-	-
Family	E003PLUS	1,738.44	422	100%	2,033	2,105
Family	E003SMED	-	-	100%	-	-
Waived	E004WAIV	601.01	-	100%	601	622

Appendix C

Summary of Plan Provisions

STD – Income Payments and Continuation of Medical and Dental Benefits and Life Insurance

Short Term Disability (STD) benefits are provided for up to one year for most union employees. The benefit level ranges between 90% and 66-2/3%, depending on service and the duration of the claim. For example, the benefit level is 90% for the first 5 weeks and 66-2/3% for the next 47 weeks for a union employee with 2 years of service.

Non-union employees are entitled to STD benefits for up to six months. Effective January 1, 2006, the STD income benefit is 100% of salary for the first 6 weeks and 67% of salary for the remainder of the benefit period (20 weeks). Employee-paid optional STD is available to increase the STD benefit to 90% of salary for weeks 7 – 26.

Effective January 1, 2004, STD benefits for COEU members are the same as for non-union employees.

Medical and dental benefits and life insurance are continued during STD for both union and non-union employees.

LTD – Income Payments and Continuation of Medical and Dental Benefits

Long Term Disability (LTD) benefits are provided after the STD benefits end.

For most union employees, the income benefit is a flat amount based on their benefit group. Effective January 1, 2004, members of the COEU have the non-union LTD FLEX plan design. Before January 1, 2004, the benefit ranged from $1,850 to $3,050 per month. The current benefit range for members of the CUCW is $1,975 to $2,250. The benefit for members of the CAW before April 1, 2003 ranged from $1,850 to $3,050 and after April 1, 2003 the range is $1,950 to $3,150. There is a 75% all source maximum and no provision for Cost of Living Adjustment (COLA) on the benefit.

For the non-union employees, the income benefit is based on their Flexible Benefit plan election, with the option of 50% or 67% of salary (reduced from 70%, effective January 1, 2006), with or without Cost of Living Adjustment (COLA) benefit. Beginning after two years of receiving LTD benefit payments, each January, the full amount of disability payment will be increased by the lesser of 60% of the Consumer Price Index or 6%. This COLA feature does not apply if the employee is covered under the core LTD option only.

For both union and non-union LTD employees, continuation of medical and dental benefits and life insurance is provided up to the earlier of recovery, death or age 65. If the non-union member has waived coverage or is in the Basic or Comprehensive plan, they will be put into the Comprehensive plan at no cost to them. If the member is in the Plus or Select plan, they can continue in that plan provided they pay the employee contributions.

Life Insurance for Employees on LTD

There is employer-paid basic coverage and employee-paid optional coverage for life insurance. Premium for the basic life insurance is continued and paid by Nortel. Nortel has no liability for the continuation of employee-paid optional life coverage.

For union employees, the basic coverage is a flat amount for members of the CUCW; a flat amount that varies by benefit group for members of the CAW; and the FLEX non union basic life for members of the COEU. The coverage varies from $32,500 to about $45,000. Effective April 1, 2003 basic life for members of the CAW increased for any employee not on LTD to range from $76,000 to $87,000 depending on benefit group.

For non-union employees, the basic coverage is one-time salary.

For both groups, the definition of disability is the same as the LTD definition.

Survivor Income Benefits (SIB) and Survivor Transition Benefits (STB)

Survivor Income Benefit (SIB) is a monthly income benefit provided upon the death of non-union employees. This benefit coverage is no longer provided with the exception of a closed group of surviving spouses. The payment of benefits is provided for the lifetime of the surviving spouse.

Survivor Transition Benefit (STB) is a monthly income benefit provided upon the death of certain union employees or certain retired union employees. In the case of an occupation-related death of an employee, an additional lump sum benefit is also provided. The monthly benefit is provided to the surviving spouse for 60 months following the death of the employee. Monthly benefit amounts range from $250 - $825.

Coverage for two of the union groups is as follows:

- CAW – effective April 1, 2003, there is no STB for active employees or future retirees. Employees on LTD at the time of this benefit change will maintain STB coverage while on LTD, but will no longer have STB coverage if they retire or return to active status.

- COEU – effective January 1, 2004, active employees were covered under the non union Flex plan, and STB benefits for current or future retirees were eliminated.

Current retirees retain the STB coverage.

APPENDIX B - REPORT ON NON-PENSION POST RETIREMENT BENEFIT COST AND DISCLOSURE FOR THE FISCAL YEAR ENDING DECEMBER 31, 2009

18 February 2010

Nortel Networks Corporation

Report on Non-Pension Post Retirement Benefit Cost and Disclosure for the Fiscal Year Ending December 31, 2009 under CICA Section 3461 and in accordance with US Accounting Standards

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Contents

1

Report Highlights

This report has been prepared by Mercer (Canada) Limited at the request of Nortel Networks Corporation ("Nortel"). This report provides information relating to Nortel's Canadian Non-Pension Post Retirement Benefit Plan ("the Plan") intended for use in accounting for the costs of the Plan and preparing Nortel's financial statements under Canadian and US accounting standards. The information presented in this report has been prepared in accordance with Section 3461 of the CICA Handbook ("CICA 3461") and US accounting standards as issued by the Financial Accounting Standards Board ("US accounting standards").

The Non-Pension Post Retirement Benefit Plan is a defined benefit plan funded on a cash basis by contributions from Nortel.

We have used CICA 3461 terminology in this report where it differs from US accounting terminology. A glossary of the differences between US accounting and CICA terminology is included at the end of this report.

Results are presented separately for Nortel Technology and Nortel Networks for the purposes of allocating the non-pension post retirement benefit cost between those entities. These results are intended for internal purposes only.

Nortel's fiscal year-end date is December 31 and the measurement date for the plan obligations as described in this report is December 31.

All results presented in this report are in Canadian dollars.

Fiscal Year Ending December 31, 2009

The benefit cost (also referred to as expense in this report) for the fiscal year ending December 31, 2009 is a credit of $3,401,000. This amount includes a curtailment gain of $5,835,000 and immediate recognition of prior service credits of $9,910,000 on account of restructuring and workforce reduction activities in 2009, for a total curtailment gain of $15,795,000. For CICA reporting of benefit cost, these items are shown separately, and for US reporting, they are shown in total.

The Accrued Benefit Obligation ("ABO") as at December 31, 2009 is $368,830,000. The corresponding Accrued Benefit Liability is $368,830,000 for the purposes of US accounting standards and $472,195,000 for the purposes of CICA 3461.

The employer contributions and employer-paid benefit payments during the fiscal year ending December 31, 2009 were $28,571,000.

Other comprehensive income (OCI) for the fiscal year ending December 31, 2009 was a charge of $48,377,000.

It should be noted that future health care cost trends are especially difficult to predict, and actual experience is likely to differ from expected. The use of a health care cost trend of 1% per year above the assumptions used in this valuation for the fiscal year ending December 31, 2009 would result in an increase to the total ABO of approximately 6%.

Fiscal Year Ending December 31, 2010

The projected benefit cost calculated for the fiscal year ending December 31, 2010, using a discount rate of 6.09% per annum is a charge of $8,302,000.

The actual benefit cost may differ from the above mentioned projection in order to reflect any benefit plan changes or significant events taking place during the coming fiscal year.

Changes in Plan Provisions

There were no changes in plan provisions since the last disclosure as of December 31, 2008.

Changes in Actuarial Assumptions

There have been changes in actuarial assumptions since the last disclosure as of December 31, 2008. Please refer to the Summary of Actuarial Assumptions in Appendix C of this report for a description of these changes.

Changes in Actuarial Methods

There were no changes in actuarial methods since the last disclosure as of December 31, 2008.

Special Events Accounting Treatment

Restructuring and workforce reduction activities in 2009 were material enough to warrant curtailment treatment. See Section 3 and Appendix A for more information.

In February 2010, we have been notified by Nortel that they will stop paying non-pension benefits after December 31, 2010. We have also been advised by Nortel that it intends to account for this event as a subsequent event. Any required curtailment and settlement in this respect would be accounted for in fiscal 2010 or later.

2

Principal Expense and Disclosure Information

A summary of principal expense and disclosure information, as required for disclosure purposes pursuant to CICA 3461 and US accounting standards, for the current and prior fiscal years in respect of the combined Medical and Life insurance plans for Nortel Networks and Nortel Technology follows (please refer to Appendix E for information by entity).

(All amounts in $000's)

Components of Benefit Cost under CICA 3461	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Current service cost	$589	$1,519
Interest cost	24,853	27,183
Actual return on plan assets	0	0
Actuarial loss (gain)	25,369	(152,342)
Plan amendments	0	0
Curtailment loss (gain)	(5,835)	0
Costs arising in the period	**$44,976**	**($123,640)**
Differences between costs arising in the period and costs recognized in the period in respect of:		
▪ Return on plan assets	0	0
▪ Actuarial loss (gain)	(35,867)	152,3424
▪ Plan amendments	(12,510)	(2,808)
▪ Transitional obligation (asset)	0	0
Benefit cost recognized	**($3,401)**	**$25,894**

(All amounts in $000's)

Components of Net Periodic Postretirement Benefit Cost (NPPBC) under US Accounting Standards	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Service cost	$589	$1,519
Interest cost	24,853	27,183
Expected return on plan assets	0	0
Amortizations		
▪ Transition (asset) obligation	0	0
▪ Prior service (credit) cost	(2,600)	(2,808)
▪ Actuarial (gain) loss	(10,498)	0
Sub-total NPPBC	**$12,344**	**$25,894**
Curtailment (gain) loss	(15,745)	0
Settlement (gain) loss	0	0
Special termination benefits	0	0
Total NPPBC	**($3,401)**	**$25,894**

Weighted-Average Assumptions for Expense	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Discount rate[1]	7.37%	5.60%
Rate of compensation increase (excluding merit and promotion)	1.25%	3.25%
Initial weighted average health care trend rate	6.14%	6.47%
Ultimate weighted average health care trend rate	4.82%	4.70%
Year ultimate rate reached	2028	2015

Weighted-Average Assumptions for Disclosure	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Discount rate	6.09%	7.37%
Rate of compensation increase (excluding merit and promotion)	2.50%	1.25%
Initial weighted average health care trend rate	6.11%	6.14%
Ultimate weighted average health care trend rate	4.82%	4.82%
Year ultimate rate reached	2028	2028

[1] Note the discount rate changed from 7.37% per annum to 6.65% per annum at July 1, 2009 and then to 6.09% per annum at September 30, 2009 due to the remeasurement of the plan at that date.

(All amounts in $000's)

Estimated Amounts That Will Be Amortized From AOCI into NPPBC in the Next Fiscal Year under US Accounting Standards	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Transition obligation (asset)	$0	$0
Prior service costs (credit)	(1,534)	(2,808)
Actuarial loss (gain)	(11,971)	(13,759)
Total	**($13,505)**	**($16,567)**

Change in Accrued Benefit Obligation (ABO)	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
ABO at end of prior year	**$352,425**	**$498,503**
Adjustment for change in measurement date	N/A	2,379
Current service cost	589	1,519
Interest cost	24,853	27,183
Employees' contributions	0	0
Plan amendments	0	0
Benefits paid	(28,571)	(24,817)
Increase (decrease) in obligation due to curtailment	(5,835)	0
Actuarial loss (gain)	25,369	(152,342)
ABO at end of year	**$368,830**	**$352,425**

Change in Plan Assets	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Fair value of plan assets at end of prior year	**$0**	**$0**
Actual return on plan assets	0	0
Employer contributions	28,571	24,817
Employees' contributions	0	0
Benefits paid	(28,571)	(24,817)
Fair value of plan assets at end of year	**$0**	**$0**

Reconciliation of Funded Status to Accrued Benefit Asset (Liability) under CICA 3461	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Funded status at end of year	($368,830)	($352,425)
Employer contributions during period from measurement date to fiscal year end	0	0
Unamortized transitional obligation (asset)	0	0
Unamortized past service costs	(13,506)	(26,016)
Unamortized net actuarial loss (gain)	(89,859)	(125,726)
Accrued benefit asset (liability)	**($472,195)**	**($504,167)**

(All amounts in $000's)

Reconciliation of Funded Status under US Accounting Standards	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
ABPO at end of year	$368,830	$352,425
Fair value of plan assets at end of year	0	0
Net asset (liability) amount recognized in statement of financial position – Surplus (Deficit) at end of year	**($368,830)**	**($352,425)**

Amounts Recognized in Statement of Financial Position Pursuant to US Accounting Standards Consist of	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Current (liabilities)	($28,384)	($26,578)
Non-current (liabilities)	(340,446)	(325,847)
Net asset (liability) amount recognized in statement of financial position	**($368,830)**	**($352,425)**

Amounts Not Yet Reflected in NPPBC and are included in AOCI under US Accounting Standards (Before Tax)	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Transition asset (obligation)	$0	$0
Prior service credit (cost)	13,506	26,016
Actuarial gain (loss)	89,859	125,726
AOCI	**$103,365**	**$151,742**
Cumulative employer contributions in excess of NPPBC	(472,195)	(504,167)
Net amount recognized in statement of financial position	**($368,830)**	**($352,425)**

Reconciliation of AOCI under US Accounting Standards	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
AOCI at the end of the prior year	$151,742	$17,872
Adjustment for change in measurement date	N/A	(702)
Adjustment for STB benefit payments	N/A	(13,088)
Adjustment for ADB benefit payments	N/A	(1,874)
Other comprehensive income (loss)	(48,377)	149,534
AOCI at the end of the year	**$103,365**	**$151,742**

(All amounts in $000's)

Changes Recognized in Other Comprehensive Income (Loss) during the period under US Accounting Standards	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Transition (asset) obligation arising during the period	$0	$0
Prior service (credit) cost arising during the period	0	0
Net actuarial (gain) loss arising during the period	25,369	(152,342)
Non-routine events (i.e. curtailment, settlements)	0	0
Amortization of transitional asset (obligation)	0	0
Amortization of prior service credit (cost)	12,510	2,808
Amortization of actuarial gain (loss)	10,498	0
Total changes recognized in other comprehensive (income) loss	**$48,377**	**($149,534)**

Additional Information for Plans with APBO in Excess of Plan Assets	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
APBO	$368,830	$352,425
Fair value of plan assets	$0	$0

Effect of Change in Assumed Health Care Cost Trend Rates	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Effect on aggregate of current service cost and interest cost		
▪ One-percentage point increase	$1,695	$2,871
▪ One-percentage point decrease	($1,455)	($2,363)
Effect on ABO at fiscal year end		
▪ One-percentage point increase	$20,982	$22,119
▪ One-percentage point decrease	($18,078)	($19,026)

Effect of Change in Assumed Discount Rate	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
Effect on ABO at fiscal year end		
▪ Twenty five basis points increase	($8,451)	($8,065)
▪ Twenty five basis points decrease	$8,809	$8,356

(All amounts in $000's)

Expected Cash Flows for the Plans	**Life**	**Medical**	**Total**
Expected employer contributions for the next fiscal year	$9,505	$18,879	$28,384
Expected benefit payments for fiscal year ending			
▪ 2010	$9,505	$18,879	$28,384
▪ 2011	$9,601	$19,066	$28,667
▪ 2012	$9,662	$19,160	$28,822
▪ 2013	$9,694	$19,195	$28,889
▪ 2014	$9,681	$19,188	$28,869
▪ 2015-2019	$47,131	$95,078	$142,209

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Certification

We have prepared an actuarial valuation of Nortel's benefit obligations for accounting purposes as at April 1, 2008 and extrapolated those results to December 31, 2008. In accordance with our mandate, the purpose of this valuation and extrapolation is to determine the benefit cost of the Plan, in accordance with CICA 3461 and US accounting standards, to enable the Company to account for the costs of the Plan for the fiscal year beginning January 1, 2009 and ending December 31, 2009.

In addition, we have prepared a second actuarial valuation of Nortel's benefit obligations for accounting purposes as at August 31, 2009 and extrapolated those results to December 31, 2009. In accordance with our mandate, the purpose of this valuation and extrapolation is to determine the obligations of the Plan in accordance with CICA 3461 and US accounting standards to enable the Company to satisfy the disclosure requirements as at December 31, 2009 under CICA 3461 and US accounting standards.

This report has been prepared exclusively for Nortel. This valuation report may not be relied upon for any purpose other than what is described in this report or by any party other than Nortel and its auditors. Mercer is not responsible for the consequences of any other use.

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the Plan pays, the number of people paid benefits, the amount of plan expenses, and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, actuarial assumptions, as described in Appendix C, are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this report. However, the future is uncertain and the Plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of legislated changes to government coverages, plan experience, changes in expectations about the future and other factors.

Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a valuation report or reports.

Plan Provisions

The results of the valuations set forth in this report reflect the provisions of the Plan as of December 31, 2009. A summary of the plan provisions and the plan amendments are provided in Appendix D of this report.

There was no substantive commitment reported to us by Management.

Data

The 2009 benefit cost contained in this report is based on data as at April 1, 2008 updated to reflect the restructuring activity through December 31, 2009. The 2009 disclosure is based on August 31, 2009 membership data. The membership data is summarized later in this report.

We used and relied upon participant and financial data supplied by Nortel and Sun Life and plan documents provided by Nortel. We have tested the data for internal consistency and reasonableness and have no reason to doubt its substantial accuracy. Audits of the source records would not normally be performed in connection with this work and we have not done so in this case.

Subsequent Events

In February 2010, we have been notified by Nortel that they will stop paying non-pension benefits after December 31, 2010. We have also been advised by Nortel that it intends to account for this event as a subsequent event. Any required curtailment and settlement in this respect would be accounted for in fiscal 2010 or later.

Methods and Assumptions

Our valuation has been prepared on the basis of actuarial methods and assumptions selected by Nortel's management ("Management") for accounting purposes in accordance with CICA 3461 and US accounting standards. The actuarial methods and assumptions used for the purposes of this valuation are summarized in Appendix C.

We have provided advice on the selection of assumptions used in the development of the benefit cost and the ABO, notably the health care trend rate and variations in claims costs by age. The demographic assumptions are consistent with those used in the valuation of the company's pension plans.

The changes to the actuarial methods and assumptions used to develop disclosure information for the current fiscal period compared to those used to determine the disclosure information as of December 31, 2008, are as follows:

- The discount rate used to measure the obligations at December 31, 2008 was 7.37% per annum. The discount rate used to measure the obligation at September 30, 2009 and December 31, 2009 was 6.09% per annum.
- The mortality assumption has been updated from the RP2000 projected to 2017 to RP2000 Fully Generational.
- The claims cost assumptions have been updated to reflect claims experience and Mercer's new aging factors.
- The premiums for the British Columbia Medical Services Plan have been updated to reflect the recently announced premium increase effective January 1, 2010. The trend rate assumption for these premiums has also been changed to 6.0% per annum in 2009 to 2012 grading down to 4.5% per annum in and after 2015, from 3.0% per annum.
- The inflation assumption increased from 1.25% per annum at December 31, 2008 to 2.5% per annum.
- The salary scale assumption increased from 2.25% per annum at December 31, 2008 to 3.5% per annum (flat equivalent rate).

Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations. Future health care cost trends are difficult to predict, and actual experience is likely to differ from expected.

Actuarial computations under CICA 3461 and US accounting standards are intended for use in enabling the Company to account for the costs of post-retirement benefits under generally accepted accounting principles. Computations intended for other purposes may produce significantly different results. Accordingly, additional computations may be needed for other purposes such as purchase price calculations or plan design costings.

Statement of Opinion

The valuation of the Plan was performed in accordance with generally accepted principles and procedures. The methods used in the valuations of benefit obligations and determination of plan costs were selected by Management in accordance with the requirements of CICA 3461 and US accounting standards.

Nortel's Management has selected the assumptions used in the valuations of the plan obligations and determination of plan costs. They are Management's best-estimate assumptions, selected for accounting purposes, in accordance with CICA 3461 and US accounting standards. These assumptions are in accordance with accepted actuarial practice and we believe each of these assumptions are reasonable.

In my opinion,

- The data on which the valuations are based are sufficient and reliable for the purposes of the valuations, and
- The calculations have been made in accordance with the requirements of CICA 3461 and US accounting standards.

This report has been prepared and my opinions given, in accordance with accepted actuarial practice in Canada.

Professional Qualifications

We are available to answer any questions on the material contained in this report or to provide explanations or further details, as may be appropriate. I, Ellen Whelan, the undersigned credentialed actuary, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any relationship, including investments or other services that could create a conflict-of-interest that would impair our objectivity.

Respectfully submitted,

Ellen Whelan Fellow of the Canadian Institute of Actuaries Fellow of the Society of Actuaries	Erica Yu Associate of the Society of Actuaries
February 18, 2010 Date	February 18, 2010 Date

Mercer (Canada) Limited, 161 Bay Street, P.O. Box 501, Toronto, Ontario M5J 2S5

Telephone: 416 868 2124 (E. Whelan), 416 868 7954 (E. Yu)

Appendix A

Development of Costs

This Appendix shows the financial position of the Plan and the calculation of the various components of plan costs.

Financial Position of the Plan

Medical Plan

(All amounts in $000's)

	01.01.09	01.01.08
1. ABO		
a. Retirees and survivors	($218,648)	($319,415)
b. Active fully eligible members	(18,386)	(22,808)
c. Active not fully eligible members	(9,551)	(31,718)
d. Total (a. + b. + c.)	**($246,585)**	**($373,941)**
2. Fair value of plan assets	0	0
3. Surplus (Deficit) (1(d) + 2.)	**($246,585)**	**($373,941)**
4. Employer contributions during period from measurement date to fiscal year end	0	3,990
5. Unamortized transitional obligation (asset)	0	0
6. Unamortized past service cost (gain)	(22,608)	(25,359)
7. Unamortized net actuarial loss (gain)	(100,415)	17,944
8. Accrued benefit asset (liability) (3. + 4. + 5. + 6. + 7.)	**($369,608)**	**($377,366)**

(All amounts in $000's)

Reconciliation of Accrued Benefit Asset (Liability) Under CICA 3461 – Medical	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
1. Accrued benefit asset (liability) at beginning of year	($369,608)	($377,366)
2. (Benefit cost) income for the year	6,347	(19,350)
3. Benefit cost for gap period	N/A	(4,839)
4. Benefit payments	19,469	18,859
5. Adjustment for STB benefit payments	N/A	13,088
6. Accrued benefit asset (liability) at end of year	**($343,792)**	**($369,608)**

Interest Cost – Medical	**Period from 01.01.09 to 30.06.09**	**Period from 01.07.09 to 30.09.09**	**Period from 01.10.09 to 31.12.09**	**Fiscal Year Ending 31.12.08**
1. ABO[2]	$246,585	$261,023	$273,870	$373,941
2. Current service cost adjusted for the period	208	95	90	0
3. a. Plan amendment	0	0	0	0
b. Weighted for timing	0	0	0	0
4. a. Benefit payments	18,860	19,065	19,160	21,849
b. Weighted for timing and adjusted for the period	4,677	2,403	2,415	10,925
5. Average ABO (1. + 2. + 3.b. – 4.b.)	**$242,116**	**$258,715**	**$271,545**	**$364,173**
6. a. Discount rate	7.37%	6.65%	6.09%	5.60%
b. Weighted for timing	3.65%	1.68%	1.53%	5.60%
7. Interest cost (5. × 6.b.)	**$8,849**	**$4,337**	**$4,169**	**$20,394**

Past Service Cost – Medical	**Unamortized Amount at Beginning of Period**	**Years Remaining**	**Amortization Amount**
1. a. Jan 1, 2009 – Jun 30, 2009	($58)	1.52	($19)
Jul 1, 2009 – Sep 30, 2008	(36)	1.02	(9)
Oct 1, 2009 – Dec 31, 2009	(26)	0.77	(8)
b. Jan 1, 2009 – Jun 30, 2009	(22,550)	10.42	(1,073)
Jul 1, 2009 – Sep 30, 2008	(19,654)	9.92	(499)
Oct 1, 2009 – Dec 31, 2009	(18,676)	9.67	(487)
2. Total	**N/A**	**N/A**	**($2,095)**

[2] Fiscal 2008 interest cost is calculated based on September 30, 2007 ABO.

(All amounts in $000's)

Amortizations – Medical	**Amortization Amount**
3. Unamortized loss (gain) subject to amortization as of January 1, 2009 for period January 1, 2009 to June 30, 2009	
a. Unamortized net actuarial loss (gain)	($100,415)
b. ABO	246,585
c. 10% of ABO b.	24,659
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(75,756)
e. Expected average remaining service lifetime	6.00
f. Weight for time period	0.496
g. Amortization amount (d. ÷ e. x f.)	**($6,261)**
4. Reconciliation of unamortized loss (gain)	
a. June 30, 2009	($94,154)
b. Remeasurement as of June 30, 2009	16,747
c. June 30, 2009 (a. + b.)	**($77,407)**
5. Unamortized loss (gain) subject to amortization as of June 30, 2009 for period July 1, 2009 to September 30, 2009	
a. Unamortized net actuarial loss (gain)	($77,407)
b. ABO	261,023
c. 10% of ABO b.	26,102
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(51,305)
e. Expected average remaining service lifetime	6.00
f. Weight for time period	0.252
g. Amortization amount (d. ÷ e. x f.)	**($2,156)**
6. Reconciliation of unamortized loss (gain)	
a. September 30, 2009	($75,251)
b. Remeasurement as of September 30, 2009	14,294
c. September 30, 2009 (a. + b.)	**($60,957)**

(All amounts in $000's)

Amortizations – Medical	**Amortization Amount**
7. Unamortized loss (gain) subject to amortization as of September 30, 2009 for period October 1, 2009 to December 31, 2009	
a. Unamortized net actuarial loss (gain)	(60,957)
b. ABO	273,870
c. 10% of ABO b.	27,387
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(33,570)
e. Expected average remaining service lifetime	6.00
f. Weight for time period	0.252
g. **Amortization amount (d. ÷ e. x f.)**	**($1,410)**

(All amounts in $000's)

	Curtailment as at 30.06.09			Curtailment as at 30.09.09			Curtailment at 31.12.09		
Medical	**Before Any Curtailment**	**Impact of Curtailment**	**After Curtailment**	**Before Any Curtailment**	**Impact of Curtailment**	**After Curtailment**	**Before Any Curtailment**	**Impact of Curtailment**	**After Curtailment**
Fair value of plan assets	$0	$0	$0	$0	$0	$0	$0	$0	$0
ABO	263,036	(2,013)	261,023	274,943	(1,073)	273,870	247,776	(410)	247,366
Surplus (Deficit)	**($263,036)**	**$2,013**	**($261,023)**	**($274,943)**	**$1,073**	**($273,870)**	**($247,776)**	**$410**	**($247,366)**
Unamortized transitional obligation (asset)	0	0	0	0	0	0	0	0	0
Unamortized past service cost	(21,516)	1,826	(19,690)	(19,182)	480	(18,702)	(18,207)	6,372	(11,835)
Unamortized net actuarial loss (gain)	(77,407)	0	(77,407)	(60,957)	0	(60,957)	(85,071)	0	(85,071)
Accrued benefit asset (liability)	**($361,959)**	**$3,839**	**($358,120)**	**($355,082)**	**$1,553**	**($353,529)**	**($351,054)**	**$6,782**	**($344,272)**

(All amounts in $000's)

Medical (Gains) and Losses Due to:	**Remeasurement as at 30.06.09**	**Remeasurement as at 30.09.09**	**Remeasurement as at 31.12.09**	**Total**
1. Change in demographics	$0	$0	($13,425)	($13,425)
2. Claims cost differing from expected, BC provincial premium and Quebec drug offset	0	0	(13,201)	(13,201)
3. Change in mortality table	0	0	1,103	1,103
4. Change in discount rate	$16,747	14,294	0	31,041
5. Difference between actual benefit payments and expected benefit payments	0	0	480	480
6. **Total**	**$16,747**	**$14,294**	**($25,043)**	**$5,998**

Life Insurance Plan

(All amounts in $000's)

	01.01.09	01.01.08
1. ABO		
a. Retirees and survivors	($97,244)	($110,030)
b. Active fully eligible members	(5,146)	(7,249)
c. Active not fully eligible members	(3,450)	(7,283)
d. Total (a. + b. + c.)	**($105,840)**	**($124,562)**
2. Fair value of plan assets	0	0
3. Surplus (Deficit) (1(d) + 2.)	**($105,840)**	**($124,562)**
4. Employer contributions during period from measurement date to fiscal year end	0	808
5. Unamortized transitional obligation (asset)	0	0
6. Unamortized past service cost (gain)	(3,408)	(4,167)
7. Unamortized net actuarial loss (gain)	(25,311)	(6,290)
8. Accrued benefit asset (liability) (3. + 4. + 5. + 6. + 7.)	**($134,559)**	**($134,211)**

Reconciliation of Accrued Benefit Asset (Liability) Under CICA 3461 – Life	**Fiscal Year Ending 31.12.09**	**Fiscal Year Ending 31.12.08**
1. Accrued benefit asset (liability) at beginning of year	($134,559)	($134,211)
2. Benefit cost for the year	(2,945)	(6,544)
3. Benefit cost for gap period	N/A	(1,636)
4. Benefit payments	9,102	5,958
5. Adjustment for ADB benefit payments	N/A	1,874
6. Accrued benefit asset (liability) at end of year	**($128,402)**	**($134,559)**

(All amounts in $000's)

Interest Cost

Interest Cost – Life	**Period from 01.01.09 to 30.06.09**	**Period from 01.07.09 to 30.09.09**	**Period from 01.10.09 to 31.12.09**	**Fiscal Year Ending 31.12.08**
1. ABO[3]	$105,840	$112,992	$119,321	$124,562
2. Current service cost adjusted for the period	94	49	53	0
3. a. Plan amendment	0	0	0	0
b. Weighted for timing	0	0	0	0
4. a. Benefit payments	7,718	7,856	7,922	7,379
b. Weighted for timing and adjusted for the period	1,914	990	999	3,690
5. Average ABO (1. + 2. + 3.b. – 4.b.)	**$104,020**	**$112,051**	**$118,375**	**$121,234**
6. a. Discount rate	7.37%	6.65%	6.09%	5.60%
b. Weighted for timing	3.65%	1.68%	1.53%	5.60%
7. Interest cost (5. × 6.b.)	**$3,802**	**$1,878**	**$1,817**	**$6,789**

[3] Fiscal 2008 interest cost is calculated based on September 30, 2007 ABO.

(All amounts in $000's)

Past Service Cost – Life	**Unamortized Amount at Beginning of Period**	**Years Remaining**	**Amortization Amount**
1. a. Jan 1, 2009 – Jun 30, 2009	($413)	1.30	($158)
Jul 1, 2009 – Sep 30, 2008	(233)	0.8	(73)
Oct 1, 2009 – Dec 31, 2009	(156)	0.3	(0)
b. Jan 1, 2009 – Jun 30, 2009	(2,995)	10.42	(143)
Jul 1, 2009 – Sep 30, 2008	(2,610)	9.92	(67)
Oct 1, 2009 – Dec 31, 2009	(2,480)	9.67	(64)
2. **Total**	**N/A**	**N/A**	**($505)**

Amortizations – Life	**Amortization Amount**
3. Unamortized loss (gain) subject to amortization as of January 1, 2009 for period January 1, 2009 to June 30, 2009	
a. Unamortized net actuarial loss (gain)	($25,311)
b. ABO	105,840
c. 10% of ABO b.	10,584
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(14,727)
e. Expected average remaining service lifetime	13.00
f. Weight for time period	0.496
g. Amortization amount (d. ÷ e. x f.)	**($562)**
4. Reconciliation of unamortized loss (gain)	
a. June 30, 2009	($24,749)
b. Remeasurement as of June 30, 2009	7,826
c. June 30, 2009 (a. + b.)	**($16,923)**
5. Unamortized loss (gain) subject to amortization as of June 30, 2009 for period July 1, 2009 to September 30, 2009	
a. Unamortized net actuarial loss (gain)	($16,923)
b. ABO	112,992
c. 10% of ABO b.	11,299
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(5,624)
e. Expected average remaining service lifetime	13.00
f. Weight for time period	0.252
g. Amortization amount (d. ÷ e. x f.)	**($109)**

(All amounts in $000's)

Amortizations – Life	**Amortization Amount**
6. Reconciliation of unamortized loss (gain)	
a. September 30, 2009	($16,814)
b. Remeasurement as of September 30, 2009	6,679
c. September 30, 2009 (a. + b.)	**($10,135)**
7. Unamortized loss (gain) subject to amortization as of September 30, 2009 for period October 1, 2009 to December 31, 2009	
a. Unamortized net actuarial loss (gain)	($10,135)
b. ABO	119,321
c. 10% of ABO b.	11,932
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	0
e. Expected average remaining service lifetime	13.00
f. Weight for time period	0.252
g. Amortization amount (d. ÷ e. x f.)	**$0**

(All amounts in $000's)

	Curtailment as at 30.06.09			Curtailment as at 30.09.09			Curtailment at 31.12.09		
Life	**Before Any Curtailment**	**Impact of Curtailment**	**After Curtailment**	**Before Any Curtailment**	**Impact of Curtailment**	**After Curtailment**	**Before Any Curtailment**	**Impact of Curtailment**	**After Curtailment**
Fair value of plan assets	$0	$0	$0	$0	$0	$0	$0	$0	$0
ABO	113,734	(742)	112,992	119,618	(297)	119,321	(122,764)	(1,300)	121,464
Surplus (Deficit)	**($113,734)**	**$742**	**($112,992)**	**($119,618)**	**$297**	**($119,321)**	**($122,764)**	**$1,300**	**($121,464)**
Unamortized transitional obligation (asset)	0	0	0	0	0	0	0	0	0
Unamortized past service cost	(3,107)	264	(2,843)	(2,703)	67	(2,636)	(2,572)	901	(1,671)
Unamortized net actuarial loss (gain)	(16,923)	0	(16,923)	(10,135)	0	(10,135)	(6,565)	0	(6,565)
Accrued benefit asset (liability)	**($133,764)**	**$1,006**	**($132,758)**	**($132,456)**	**$364**	**($132,092)**	**($131,901)**	**$2,201**	**($129,700)**

(All amounts in $000's)

Life (Gains) and Losses Due to:	**Remeasurement as at 30.06.09**	**Remeasurement as at 30.09.09**	**Remeasurement as at 31.12.09**	**Total**
1. Change in demographics	$0	$0	$2,178	$2,178
2. Change in mortality table	0	0	187	187
3. Change in salary scale assumption	0	35	1,203	1,203
4. Change in discount rate	7,826	6,644	0	14,505
5. Difference between actual benefit payments and expected benefit payments	0	0	1,298	1,298
6. Total	**$7,826**	**$6,679**	**$4,866**	**$19,371**

Appendix B

Membership Data

The actuarial valuation is based on membership data as at August 31, 2009, provided by Nortel.

We have not independently verified the accuracy or completeness of the data except to the extent required by generally accepted professional standards and practices. Mercer will not be held responsible for any liability arising from the use of incomplete, inaccurate or not up-to-date data or documentation. We have applied tests for internal consistency, as well as for consistency with the data used for the previous valuation. These tests were applied to membership reconciliation, basic information (date of birth, date of hire, date of membership, gender, etc.), earnings, and service. The results of these tests were satisfactory.

Plan membership data as at August 31, 2009 and April 1, 2008 (the last valuation) are summarized in the following pages.

Analysis of Membership Data

	Nortel Networks			Nortel Technology
As at 31.08.09	**Non-Union**	**Union**	**Total**	**Non-Union**
Active and LTD Members				
Number	2,014	264	2,278	1,528
Average earnings	$111,925	N/A	N/A	$118,270
Average age (years)	47.1	52.9	47.8	45.4
Average service (years)	18.7	26.6	19.6	17.3
Active and LTD Members Terminations as at 31.12.09				
Number	615	26	641	546
Average age (years)	46.4	46.3	46.4	44.7
Average service (years)	17.9	19.9	17.9	16.3
Inactive Members				
Retirees				
Total Number	4,237	5,558	9,795	872
▪ Average Age	72.1	73.4	72.8	69.2
Number with Medical/Dental	3,169	5,512	8,681	663
▪ Average Age	73.5	73.5	73.5	70.3
Number with Life Insurance	4,056	5,449	9,505	858
▪ Average Age	71.5	73.2	72.5	69.0
▪ Average Life Insurance	$38,323	$14,897	$24,893	$45,722
Spouses of Retirees				
Number with Medical/Dental	2,306	3,405	5,711	443
Average age (years)	69.9	71.2	70.7	67.1
Surviving Spouses				
Number with Medical/Dental	543	637	1,180	34
Average age (years)	80.1	77.3	78.6	77.9
Number currently in receipt of STB[4]	N/A	297	297	N/A
Average age (years)	N/A	77.4	77.4	N/A

[4] A split of STB recipients by status (active/retired) was not available. We determined the split of STB obligation between that for active employees and that for retired employees by age at death of the employee.The number of members in receipt of STB from death's of active members has been estimated to be 11 (average age of spouse is 58.6). The obligation for these members has been included in the post employment figures. The number of members in receipt of STB from death's of retired members has been estimated to be 297 (average age of spouse is 77.4). The obligation for these members has been included in the post retirement figures along with an obligation for potential future retired members' death where a spouse would be eligible to receive STB benefits.

	Nortel Networks			Nortel Technology
As at 01.04.08	**Non-Union**	**Union**	**Total**	**Non-Union**
Active and LTD Members				
Number	2,726	323	3,049	2,131
Average earnings	$108,350	N/A	96,872	112,620
Average age (years)	45.6	51.8	46.2	44.2
Average service (years)	16.8	25.2	17.7	15.4
Inactive Members				
Retirees				
Number	4,185	5,534	9,719	850
Average age (years)	70.8	72.0	71.5	68.0
Spouses of Retirees				
Number	2,801	3,419	6,220	555
Average age (years)	67.3	69.7	68.6	64.6
Surviving Spouses				
Number	749	637	1,386	73
Average age (years)	76.6	75.8	76.3	72.6

Nortel Networks Distribution of Active and Disabled Members
By Age Group and Completed Years of Service as at 31.08.09

Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
Under 20										0
20-24										0
25-29	12	9								21
30-34	10	40	33	1						84
35-39	8	66	149	36						259
40-44	4	80	118	160	83	3				448
45-49	2	49	101	103	205	129	5			594
50-54	1	22	62	60	75	184	49	13		466
55-59	2	7	36	19	30	75	54	28	2	253
60-64		3	8	9	11	34	27	31	22	145
65-69		1			1			5	1	8
70-74										0
75+										0
Total	**39**	**277**	**507**	**388**	**405**	**425**	**135**	**77**	**25**	**2,278**

The distribution of the active members by age and completed years of service as at August 31, 2009 is summarized as follows:

Nortel Technology Distribution of Active and Disabled Members
By Age Group and Completed Years of Service as at 31.08.09

Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
Under20										0
20-24										0
25-29	6	6								12
30-34	2	49	47	1						99
35-39	2	48	119	51						220
40-44		61	113	157	54	2				387
45-49		33	91	94	168	58				444
50-54	1	9	48	42	49	79	19	1		248
55-59		6	18	12	11	17	13	4		81
60-64			3	5	3	7	5	5	2	30
65-69		1	1		1	1	2		1	7
70-74										0
75+										0
Total	**11**	**213**	**440**	**362**	**286**	**164**	**39**	**10**	**3**	**1,528**

Total Distribution of Active and Disabled Members
By Age Group and Completed Years of Service as at 31.08.09

Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
Under 20										0
20-24										0
25-29	18	15								33
30-34	12	89	80	2						183
35-39	10	114	268	87						479
40-44	4	141	231	317	137	5				835
45-49	2	82	192	197	373	187	5			1,038
50-54	2	31	110	102	124	263	68	14		714
55-59	2	13	54	31	41	92	67	32	2	334
60-64		3	11	14	14	41	32	36	24	175
65-69		2	1		2	1	2	5	2	15
70-74										0
75+										0
Total	**50**	**490**	**947**	**750**	**691**	**589**	**174**	**87**	**28**	**3,806**

The distribution of the retirees and surviving spouses by age as at August 31, 2009 is summarized as follows:

Nortel Networks Distribution of Retirees and Surviving Spouses By Age Group as at 31.08.09

Age	Retirees	Surviving Spouses	Total
Under 50	2	0	**11**
50 – 54	73	4	**84**
55 – 59	448	11	**475**
60 – 64	1,680	50	**1,747**
65 – 69	1,783	105	**1,919**
70 – 74	1,839	183	**2,052**
75 +	3,970	827	**4,894**
Total	**9,795**	**1,180**	**11,182**

Nortel Technology Distribution of Retirees and Surviving Spouses By Age Group as at 31.08.09

Age	Retirees	Surviving Spouses	Total
Under 50	2	0	**5**
50 – 54	8	2	**11**
55 – 59	68	1	**72**
60 – 64	213	0	**216**
65 – 69	215	5	**229**
70 – 74	174	3	**183**
75 +	192	23	**229**
Total	**872**	**34**	**945**

Nortel Total Distribution of Retirees and Surviving Spouses By Age Group as at as at 31.08.09

Age	Retirees	Surviving Spouses	Total
Under 50	4	0	**16**
50 – 54	81	6	**95**
55 – 59	516	12	**547**
60 – 64	1,893	50	**1,963**
65 – 69	1,998	110	**2,148**
70 – 74	2,013	186	**2,235**
75 +	4,162	850	**5,123**
Total	**10,667**	**1,214**	**12,127**

Appendix C

Valuation Methods and Assumptions

This Appendix describes the methods and assumptions used to value the Plan as well as accounting policies used to calculate the benefit cost.

Cost Method

Obligations shown in this report are determined using the projected benefit method pro-rated on service (as defined in CICA 3461 and under US accounting standards). The objective under this method is to expense each member's benefits under the Plan taking into consideration projections of benefit costs to and during retirement, and allocating an equal portion of the costs to each year of service.

For retirees, spouses of retirees and surviving spouses, the ABO at a point in time is the actuarial present value of all future projected benefit as at that point in time.

For each active member, a "full eligibility" date is determined as the first date the member has or will have met the age and service requirements to qualify for all benefits after retirement.

Full eligibility varies by plan and is defined as follows:

Program	**Group**	**Attribution Period Start Date**	**End Date (Full Eligibility Date)**
Grandfathered Traditional (non-union)	Part I	Entry date in pension plan	Earlier of age 55 and 2 years of pensionable service and the date when the member completes 30 years of pensionable service
	Part II	Hire date	Age 55 and 5 years of continuous service
Non-Grandfathered Traditional (non-union)	Part I	Entry date in pension plan	Earlier of age 55 and 2 years of pensionable service and the date when the member completes 30 years of pensionable service
	Part II	Hire date	Age 55 and 10 years of continuous service
Balanced (non-union)	All	Later of hire age and age 40	Assumed Retirement Age
SARP (union)	All	Later of hire age and age 40	Assumed Retirement Age

For active members who have reached "full eligibility", the ABO at a point in time is the actuarial present value of all future projected benefits as at that point in time. For these members, the current service cost is zero.

For active members who have not yet reached "full eligibility", the ABO at a point in time is the actuarial present value of all future projected benefits, as at that point in time multiplied by the ratio of service at that time to projected service at "full eligibility". For these members, the Current Service Cost (for the year beginning at that time) is the actuarial present value of benefits deemed to accrue in the year beginning at that time, and is determined as the actuarial present value of all future projected benefits divided by the projected service at "full eligibility".

The plan's Current Service Cost is the sum of the individual members' Current Service Cost, and the Plan's ABO is the sum of the ABOs for all members under the Plan.

There have been no changes in the cost method since the last valuation.

Funding Policy

The post-retirement benefits are funded on a pay-as-you-go basis. (Nortel funds on a cash basis as benefits are paid.)

Accounting Policies

Management applied the Recommendations of CICA 3461 retroactively as at January 1, 2000.

The Medical and Life plans are treated as two separate plans for the purpose of determining cumulative gains and losses. For each plan, cumulative gains and losses in excess of 10% of the beginning of year ABO are amortized over the expected average remaining service to retirement of active members expected to receive benefits under the Plan. Nortel Networks and Nortel Technology are treated as a single entity for the purposes of determining cumulative gains and losses and the amortization in future periods.

The Company has elected to amortize past service costs resulting from plan amendments on a linear basis over the expected average remaining service (to full eligibility) of active members expected to receive benefits under the Plan.

Nortel's fiscal year-end is December 31 and the measurement date is December 31.

The attribution period is the period of an employee's service to which the expected non-pension post-retirement benefit obligation for that employee is assigned. The beginning of the attribution period is the date of hire (or pension plan membership date, depending on the Plan), which is the beginning of the credited service period. The end of the attribution period is the full eligibility date for the various Nortel plans, as described in the summary of plan provisions section of this report.

Summary of Assumptions

The following assumptions were used in valuing the benefit obligations under the Plan.

Measurement date	December 31
Discount rate	6.09% per annum for remeasurement as at September 30, 2009 and 2009 benefit cost for the period from October 1, 2009 to December 31, 2009, 2009 disclosure and 2010 benefit cost 6.65% per annum for remeasurement as at June 30, 2009 and 2009 benefit cost for the period from July 1, 2009 to September 30, 2009 7.37% per annum for 2008 disclosure and 2009 benefit cost for the period from January 1, 2009 to June 30, 2009
CPI	2.50% per annum for remeasurement as at September 30, 2009 and 2009 benefit cost for the period from October 1, 2009 to December 31, 2009, 2009 disclosure and 2010 benefit cost 2.00% per annum for remeasurement as at June 30, 2009 and 2009 benefit cost for the period from July 1, 2009 to September 30, 2009 1.25% per annum for 2008 disclosure and 2009 benefit cost for the period from January 1, 2009 to June 30, 2009
Salary increases	Salary increases used to determine future life insurance benefits for non-union employees are assumed to be the sum of two factors: ▪ An inflationary and productivity component; and ▪ Merit and promotional increases. For 2008 year end disclosure and 2009 benefit cost, the inflation and productivity component was 1.25% per annum. For 2009 disclosure, the inflation and productivity component is 2.50% (i.e. inflation = CPI, productivity = 0%).
Merit and promotion	Merit and promotion increases were based on age, Job Code Incentive (JCI) level and Professional / Non-professional code as follows:

Age	Prof & JCI above 1 or Non-Prof & JCI above 4	Prof & JCI Level 1 or Non-Prof & JCI below 5
20	0.00%	0.00%
25	4.00%	1.00%
30	4.00%	0.50%
35	3.00%	0.50%
40	2.25%	0.50%
45	1.75%	0.00%
50	1.25%	0.00%
55	1.25%	0.00%

Health care cost trend rates (2008 disclosure and 2009 benefit cost)	***Grandfathered Traditional Program***	
	Semi-Private Hospital	4.75% per annum
	Prescription Drugs	9.00% per annum in 2008 grading down to 5.00% per annum in and after 2028
	Other Health Care	4.75% per annum
	Vision Care	0.00% per annum
	Dental Care	4.75% per annum
	Provincial Premium	3.25% per annum
	Non-Grandfathered Traditional Program	
	Catastrophic Plan	8.00% per annum in 2008 grading down to 5.00% per annum in and after 2028
	Healthcare Spending Account Allocation	No increases
	Provincial Premium	3.25% per annum
	Balanced Program and SARP	
	Healthcare Spending Account Allocation	No increases
	Provincial Premium	3.25% per annum

Health care cost trend rates (2009 disclosure and 2010 benefit cost)	***Grandfathered Traditional Program***	
	Semi-Private Hospital	4.75% per annum
	Prescription Drugs	9.00% per annum in 2008 grading down to 5.00% per annum in and after 2028
	Other Health Care	4.75% per annum
	Vision Care	0.00% per annum
	Dental Care	4.75% per annum
	Provincial Premium (non-BC)	3.25% per annum
	BC Provincial Premium	6.0% per annum for 3 years, then 4.5% per annum thereafter
	Non-Grandfathered Traditional Program	
	Catastrophic Plan	8.00% per annum in 2008 grading down to 5.00% per annum in and after 2028
	Healthcare Spending Account Allocation	No increases
	Provincial Premium (non-BC)	3.25% per annum
	BC Provincial Premium	6.0% per annum for 3 years, then 4.5% per annum thereafter
	Balanced Program and SARP	
	Healthcare Spending Account Allocation	No increases
	Provincial Premium (non-BC)	3.25% per annum
	BC Provincial Premium	6.0% per annum for 3 years, then 4.5% per annum thereafter
Mortality (2008 disclosure and 2009 benefit cost)	RP2000 mortality table projected to 2017. Rates at sample ages are shown below (per 1,000 members):	

Age	Male	Female
20	0.25	0.15
30	0.41	0.22
40	0.94	0.55
50	1.57	1.25
60	5.13	4.64
70	17.18	15.37
80	54.26	40.72
90	171.33	125.13

Mortality (2009 disclosure and 2010 benefit cost)	RP2000 mortality table fully generational.

Withdrawal

We have made an allowance for future terminations of employment before retirement for reasons other than death or retirement. Sample termination rates, by employee group, are as follows:

Age	Non-Union	Union
20	12.92%	9.18%
25	10.86%	9.18%
30	9.03%	7.49%
35	7.34%	5.16%
40	5.66%	3.70%
45	3.97%	2.55%
50	3.03%	1.47%
55	1.14%	0.43%

The termination scale ends at the full eligibility date.

Retirement rates

Retirement Scale

Traditional (Grandfathered and Non-Grandfathered) Programs

Non-Union (Part 1)

- 5% per year from Company-Initiated Retirement Age[5] to Employee-Initiated Retirement Age[6]
- 40% at Employee-Initiated Retirement Age
- 15% per year from Employee-Initiated Retirement Age to Age 65
- 100% at Age 65

Non-Union (Part II)

- 5% per year from Age 55 to Age 59
- 20% per year from Age 60 to Age 64
- 100% at Age 65

Union

- 15% per year from Company-Initiated Retirement Age[3] to Employee-Initiated Retirement Age[4]
- 40% at Employee-Initiated Retirement Age
- 15% per year from Employee-Initiated Retirement Age to Age 65
- 100% at Age 65

Balanced Program

Non-Union Plan Only

- Same as Non-Union Plan for Part II members

SARP Program

Union Plan Only

- Same as Union Plan for Traditional Programs

5 Company – Initiated Retirement Age refers to the earlier of: Age 55 with 25 years of pensionable service, and 30 years of pensionable service.

6 Employee-Initiated Retirement Age refers to the earlier of: Age 65, age 60 with age plus pensionable service equal to 80 or more, and age 55 with age plus pensionable service equal to 85 or more, or age 55 with 20 years of pensionable service for female members, in service with Nortel Networks on May 31, 1973.

Disability rates	We have made no explicit allowance for the possibility that plan members become disabled before retirement. Members currently in receipt of LTD benefits are assumed to retire at age 65.	
Marital status	▪ For active employees, 80% are assumed to be married at retirement with males assumed to be 2 years older than their female spouses. ▪ For current retirees, actual spousal information was used	
Age 65 2008 per covered person claim costs (before administration and taxes) (2008 disclosure and 2009 benefit cost)	***Grandfathered Traditional Program***	
	Semi-private Hospital	$41
	Prescription Drugs[7]	640
	Other Medical	144
	Vision Care	24
	Dental Care	235
	Total	**$1,084**
	Non-Grandfathered Traditional Program	
	Catastrophic Medical Program[8]	$987
	Healthcare Spending Account	$50 per year of service from age 40 to retirement age
	Balanced Program	
	Healthcare Spending Account	$50 per year of service from age 40 to retirement age
	SARP	
	Healthcare Spending Account	$50 per year of service from age 40 to retirement age

7 Drug costs are reduced from age 65 due to coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.

8 All drug costs can be claimed under this plan. The costs for drug benefits are reduced from age 65 due to the coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.

Age 65 2010 per covered person claim costs (including administration and taxes) (2009 disclosure and 2010 benefit cost)	***Grandfathered Traditional Program***	
	Semi-private Hospital	$26
	Prescription Drugs[9]	765
	Other Medical	136
	Vision Care	19
	Dental Care	263
	Total	**$1,209**
	Non-Grandfathered Traditional Program	
	Catastrophic Medical Program[10]	$985
	Healthcare Spending Account	$50[11] per year of service from age 40 to retirement age
	Balanced Program	
	Healthcare Spending Account	$50[11] per year of service from age 40 to retirement age
	SARP Program	
	Healthcare Spending Account	$50[11] per year of service from age 40 to retirement age

Post retirement increases in utilization by age		**Cost at Age**						
		55	**60**	**65**	**70**	**75**	**80**	**85**
	Supplementary Hospital	45%	64%	100%	161%	253%	388%	562%
	Prescription Drugs[12]	75%	88%	100%	109%	113%	114%	113%
	Other Medical	106%	103%	100%	102%	110%	121%	135%
	Vision Care	106%	103%	100%	97%	95%	92%	89%
	Dental Care	107%	104%	100%	95%	90%	83%	74%
	Catastrophic Medical Plan	75%	88%	100%	109%	113%	114%	113%
	Healthcare Spending Account	100%	100%	100%	100%	100%	100%	100%

Prescription drug offset assumption at age 65 and after (2008 disclosure and 2009 benefit cost)	Alberta: 55% of claims Ontario: 65% of claims Quebec: 100% of claims (assume 100% of Quebec retirees elected RAMQ at age 65) Others: 0%

[9] Drug costs are reduced from age 65 due to coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.

[10] All drug costs can be claimed under this plan. The costs for drug benefits are reduced from age 65 due to the coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.

[11] Amount decreases to 50% upon members death and continues for surviving spouses.

[12] Drug costs are reduced from age 65 due to coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.

Prescription drug offset assumption at age 65 and after (2009 disclosure and 2010 benefit cost)	Alberta: 55% of claims Ontario: 65% of claims Quebec: 50% of claims (assume 100% of Quebec retirees elected RAMQ at age 65) Others: 0%
Adjustment factors for the Catastrophic Medical Plan deductible and lifetime maximum	The liabilities for the catastrophic medical coverage under the Non-Grandfathered Traditional Program were initially calculated based on the above claims cost, aging, trend and drug offset assumptions. The resulting obligations were then reduced by multiplying by the following factors by age at the valuation date to reflect the expected impact of the plan's lifetime deductible ($7,500 per family) and lifetime maximum ($500,000 per family) provisions. It has been assumed that the current flat lifetime deductible and maximum amounts do not increase in the future.

Age Group	Adjustment Factors
Less than 30	0.96
30 to 34	0.95
35 to 39	0.93
40 to 44	0.92
45 to 49	0.89
50 to 54	0.87
55 to 59	0.82
60+	0.89

Provincial government plans (2008 disclosure and 2009 benefit cost)

As of April 1, 2008 the retiree premium for the government plans are as follows:

Province	Single	Family
RAMQ Premium (Nortel reimbursement)	$175	$350
British Columbia	$54	$96

Provincial government plans (2009 disclosure and 2010 benefit cost)

As of January 1, 2010 the retiree premium for the government plans are as follows:

Province	Single	Family
RAMQ Premium (Nortel reimbursement)	$175	$350
British Columbia	$57	$102

Administrative expenses

Medical	4.30% of claims
Dental	4.30% of claims
Life Insurance	1.50% of claims
STB	2.30% of claims

Taxes	Provisions for the following provincial premium and sales taxes have been made:	
	Provincial Sales Taxes:	
	Quebec	9.00% of claims and expenses
	Ontario	8.00% of claims and expenses
	Other Provinces	Nil
	Premium Taxes:	
	Quebec	2.35% of claims and expenses
	Ontario	2.00% of claims and expenses
	Other Provinces	2.00% to 4.00% of claims and expenses for Life Insurance and STB, and for Medical/Dental depending on the province as follows: ▪ 2.00%: Alberta, British Columbia, Manitoba, New Brunswick, Saskatchewan ▪ 3.00%: Nova Scotia ▪ 3.50% Prince Edward Island ▪ 4.00%: Newfoundland and Labrador
	Goods and Services Tax:	
	All Provinces	5.00% of expenses
Attribution period	As described in the Summary of Non-Pension Post Retirement Benefit Plan Provisions.	

Claims Cost Development

Grandfathered Traditional Plan

The 2010 per covered person claim costs at age 65 are based on actual claims experience for Nortel's retired members or surviving spouses for the calendar years, 2007 to 2009. The claims cost assumptions include administration and taxes. Claim costs were trended to the mid-point (July 1, 2010) of the current valuation period. Refer to the schedule for the development of the 2008 claim costs on the following pages.

Catastrophic Plan

To determine the per capita costs of age 65 for the catastrophic plan, we relied on the data used for the Grandfathered Traditional Plan and applied certain relative value adjustments to develop the costs for the catastrophic plan.

Grandfathered Traditional Plan

	2009 Total	2008 Total	2007 Total
Actual Nortel retirees' paid claims (before administration costs and taxes)			
Hospital	$953,756	$1,080,673	$1,101,260
Drug	6,736,069	6,981,234	6,646,711
Vision care	321,555	287,525	290,146
Other medical	2,355,119	2,530,114	1,862,758
Dental	3,773,716	3,547,802	3,505,179
Total	$14,140,215	$14,427,347	$13,406,054
Number of Nortel retirees, spouses and surviving spouses			
▪ Eligible for medical benefits	18,985	18,916	18,803
▪ Eligible for dental benefits	18,985	18,916	18,803
Per covered member costs			
Hospital	$50.24	$57.13	$58.57
Drug	472.94	492.47	464.71
Vision care	16.94	15.20	15.43
Other medical	124.05	133.76	99.07
Dental	198.77	187.56	186.42
Total	$862.94	$886.11	$824.19
Trend to July 01, 2009			
Hospital	1.00	1.05	1.10
Drug	1.00	1.08	1.17
Vision care	1.00	1.00	1.00
Other medical	1.00	1.05	1.10
Dental	1.00	1.05	1.10
2009 per covered member costs			
Hospital	$50.24	$59.84	$64.26
Drug	472.94	531.87	542.03
Vision care	16.94	15.20	15.43
Other medical	124.05	140.11	108.70
Dental	198.77	196.46	204.55
Total	$862.94	$943.48	$934.98
Weighting	50%	33%	17%
Trend to July 01, 2010			
Hospital	1.048		
Drug	1.080		
Vision care	1.000		
Other medical	1.048		
Dental	1.048		
2010 per covered member costs			
Hospital	$58.43		
Drug	544.43		
Vision care	16.11		
Other medical	132.87		
Dental	208.42		
Total	$960.25		

Adjustment factors to convert 2010 per covered member costs into age 65 per covered member costs		
Hospital	0.3937	
Drug	1.2288	
Vision care	1.0554	
Other medical	0.8956	
Dental	1.1036	
Drug offset assumption at age 65	**0%**	
Per covered member age 65 claims costs (2010 per covered member costs x adjustment factors)		
Hospital	$23.00	
Drug - incorporating 0% drug offset	669.00	
Vision care	17.00	
Other medical	119.00	
Dental	230.00	
Total	**$1,058.00**	
Administration costs and taxes		
• Administration costs for medical	4.52%	of claims
• Premium and sales taxes	9.50%	of claims
Total administration costs and taxes	**14.44%**	**of claims**
Administration costs and taxes		
• Administration costs for dental	4.52%	of claims
• Premium and sales taxes	9.50%	of claims
Total administration costs and taxes	**14.44%**	**of claims**
Per covered member age 65 claims costs with administration costs and taxes		
Hospital	$26.32	
Drug - incorporating 0% drug offset	765.63	
Vision care	19.46	
Other medical	136.19	
Dental	263.22	
Total	**$1,210.82**	
Benefit adjustment factors due to differences in plan provisions		
Hospital	1.00	
Drug	1.00	
Vision care	1.00	
Other medical	1.00	
Dental	1.00	

Nortel 2010 per covered member age 65 claims costs with administration costs and taxes	**Total**
Hospital	$26.32
Drug - incorporating 0% drug offset	765.63
Vision care	19.46
Other medical	136.19
Dental	263.22
Total	**$1,210.82**

Appendix D

Summary of Plan Provisions

Future Non-Union Retirees

On June 2, 2006 Nortel announced changes to the post retirement benefits provided to non-union employees. Effective January 1, 2008, non-union employees who were not at least 50 years of age with 5 years of service on July 1, 2006:

- would be provided with medical and dental benefits on an "access-only" basis (100% retiree paid); and
- a flat $10,000 life benefit.

Current Retired Non-Union Members

May be covered by one of the various plans outlined on the following pages depending on their compensation plan and depending on their retirement date.

Future and Current Union Retirees

Future Union retirees and current union retirees are covered under the Traditional Grandfathered plan or SARP plan as shown on the following pages. (There are a few plan differences for the union members covered under the Traditional plan than the non-union members covered under this plan.)

	Grandfathered Traditional Program	**Non-Grandfathered Traditional Program**	**Non-Grandfathered Traditional, Balanced Program and SARP**
		Catastrophic Program	**Healthcare Spending Account**
Eligibility	▪ Age 50 or have at least 28 years of service as at April 30, 2000 ▪ Part I: Employee must retire directly from active status or Long Term Disability ▪ Part II: Employee must be at least age 55 with 5 years of service at retirement	▪ If employee does not qualify for the Grandfathered Traditional program ▪ Part I: Employee must retire directly from active status or Long Term Disability ▪ Part II: Employee must be at least age 55 with 10 years of service at retirement	▪ Part I: Employee must retire directly from active status or Long Term Disability ▪ Part II: Balanced Program & SARP; employee must be at least age 55 with 10 years of service at retirement ▪ Investor program for Quebec retirees under age 65 who retire from active status
Medical and Dental Coverage			
Deductible	▪ $25/50 (single/family) per calendar year ▪ Applies to expenses incurred under either or both health and dental plans	▪ $7,500 lifetime out-of-pocket deductible per family ▪ Applies to certain medical benefits only	▪ N/A ▪
Overall Plan Maximum	▪ Unlimited	▪ $500,000 lifetime maximum per family	▪ N/A
Benefit Amount	▪ Out-of-pocket maximum of $1,000 per calendar year per family	▪ Reimburses 100% (from catastrophic plan) of eligible medical expenses after the lifetime deductible is satisfied	▪ Annual company paid allocation is $60 per year of service from age 40
Spousal & Dependent Coverage	▪ Yes	▪ Yes	▪ Annual company paid allocation reduced by half after the death of the retiree
Cost Sharing	▪ 100% Nortel-paid if employee at least age 50 with 5 years service at July 1, 2006, otherwise, 100% retiree-paid	▪ 100% Nortel-paid if employee at least age 50 with 5 years service at July 1, 2006, otherwise, 100% retiree-paid	▪ 100% Nortel-paid if employee at least age 50 with 5 years service at July 1, 2006, otherwise, 100% retiree-paid
Medical			
Drug (Non-Quebec)	▪ Prescription drugs covered at 80%	▪ Prescription drugs, generic substitution where possible ▪ $7 dispensing fee maximum	▪ Not covered

	Grandfathered Traditional Program	**Non-Grandfathered Traditional Program**	**Non-Grandfathered Traditional, Balanced Program and SARP**
		Catastrophic Program	**Healthcare Spending Account**
Drug (Quebec) – Retirees 65 and over: 2 Choices	Provincial RQ Drug Plan ▪ Covers 68% up to $954 out of pocket/yr ▪ 100% of expenses in excess of $954 ▪ Monthly deductible $14.95/month ▪ Nortel pays premiums (taxable benefit) to a maximum of $175/yr NN RAMQ Equivalent Drug Plan ▪ 80% eligible on RAMQ formulary up to $954 out of pocket a year and 100% of expenses in excess of $954; $25/$50 deductible ▪ Retiree pays premiums	Provincial RQ Drug Plan ▪ Covers 68% up to $954 out of pocket/yr ▪ 100% of expenses in excess of $954 ▪ Monthly deductible $14.95/month ▪ Nortel pays premiums (taxable benefit) to a maximum of $175/yr NN RAMQ Equivalent Drug Plan ▪ 80% eligible on RAMQ formulary up to $954 out of pocket a year and 100% of expenses in excess of $954; $25/$50 deductible ▪ Retiree pays premiums	Provincial RQ Drug Plan ▪ Covers 68% up to $954 out of pocket/yr ▪ 100% of expenses in excess of $954 ▪ Monthly deductible $14.95/month ▪ Nortel pays premiums (taxable benefit) to a maximum of $175/yr NN RAMQ Equivalent Drug Plan ▪ 80% eligible on RAMQ formulary up to $954 out of pocket a year and 100% of expenses in excess of $954 ▪ Retiree pays premiums
Hospital	▪ 100% of the first $50 per day and 50% of the remaining cost ▪ Difference between ward and private room coverage	▪ Not covered	▪ Not covered
Private Duty Nursing	▪ 80% to a maximum of $12,500 in period of illness/injury	▪ 100% subject to deductible and overall plan maximum	▪ Not covered
Vision Care	Non-Union ▪ 50% up to a maximum of $100/ 2yrs /per person, and $200/2yrs for severe eye conditions CAW and COEU ▪ Maximum of $100 /2yrs /per person, and $200/2yrs for severe eye conditions	▪ Not covered	▪ Not covered
Hearing Aid	▪ 50% to a maximum of $200 /2yrs/ per person	▪ Not covered	▪ Not covered
Provincial Health Insurance Premium	▪ Nortel Networks pays 100% of the provincial health insurance premiums for retirees in British Columbia.	▪ Nortel Networks pays100% of the provincial health insurance premiums for retirees in British Columbia.	▪ Nortel Networks pays 100% of the provincial health insurance premiums for retirees in British Columbia.

	Grandfathered Traditional Program	**Non-Grandfathered Traditional Program**	**Non-Grandfathered Traditional, Balanced Program and SARP**
		Catastrophic Program	**Healthcare Spending Account**
Other Medical	▪ Includes: 80% co-insurance: – Out of province medical coverage – Medical equipment and supplies – Ambulance services – X-rays – Accidental dental – Paramedical services ($250 maximum per person per calendar year) – Orthopaedic shoes – Physiotherapist (no maximum) – Other parameds ($250 maximum) 50% co-insurance: – Hearing aids – Nursing Homes	▪ Includes: – Medical equipment and supplies – Ambulance services – X-rays – Selected list of paramedical services (physiotherapist, chiropractor, speech therapist, osteopath) $250 maximum per practitioner per calendar year – 100% subject to deductible and overall plan maximum	▪ Not covered
Dental	Coinsurance of:	Not Covered	Not covered
Basic	80%		
Periodontic / Endodontic	50%		
Major Restorative	50%		
Orthodontic	None		
Maximum Benefit	▪ Periodontic / Endodontic: $1,000 per person in any 3 years ▪ Major: $1,000 per person per calendar year		

	Grandfathered Traditional Program	**Non-Grandfathered Traditional Program**	**Non-Grandfathered Traditional, Balanced Program and SARP**
		Catastrophic Program	**Healthcare Spending Account**
Life Insurance	▪ Equal to pre-retirement basic life coverage ▪ Non-union employees receive $10,000 if not at least age 50 with 5 years service on July 1, 2006 ▪ Reducing by 5% on each retirement anniversary **Non-Union** Non-Union Pre '91 retiree – Reduction stops when coverage is 75% of pre-retirement basic life coverage Non-Union Post '91 retiree – Reduction stops when coverage is 25% of pre-retirement basic life coverage – Minimum coverage of $20,000 Exceptions to the Above: ▪ For retirees on private payroll whose band was 12 and above, and for NEDCO retirees: the initial amount of insurance remains level after retirement **Union** Union Pre '91 retiree – Reduction stops when coverage is 75% of pre-retirement basic life coverage Union Post '91 retiree ▪ Reduction stops when coverage is 50% of pre-retirement basic life coverage ▪ Minimum coverage of $10,000 except for CAW who have a minimum coverage of $25,000	Non Grandfathered Traditional ▪ $35,000 in company paid coverage or $10,000 death benefit if at least age 50 with 5 years service at July 1, 2006, otherwise, $10,000	Balanced ▪ $35,000 in company paid coverage or $10,000 death benefit if at least age 50 with 5 years service at July 1, 2006, otherwise, $10,000 SARP ▪ $30,000 in company paid coverage or $10,000 death benefit for CAW retirees ▪ $35,000 in company paid coverage or $10,000 death benefit for COEU retirees

Appendix E

Additional Information

Disclosure Information by Entity

	Nortel Networks Life	Nortel Networks Medical	Nortel Networks Total	Nortel Technology Life	Nortel Technology Medical	Nortel Technology Total	Grand Total
Change in accumulated post retirement benefit obligation							
Accumulated post retirement benefit obligation - end of prior period	93,409	223,125	316,534	12,431	23,460	35,891	352,425
Service cost	119	284	403	77	109	186	589
Interest cost	6,607	15,696	22,303	891	1,659	2,550	24,853
Employee contributions	0	0	0	0	0	0	0
Plan amendments	0	0	0	0	0	0	0
Benefits paid	(6,295)	(19,443)	(27,738)	(807)	(26)	(833)	(28,571)
Net transfer in (out)	0	0	0	0	0	0	0
Acquisitions (divestitures)	0	0	0	0	0	0	0
Increase (decrease) in obligation due to curtailment	(1,360)	(2,113)	(3,473)	(979)	(1,383)	(2,362)	(5,835)
Obligation being settled	0	0	0	0	0	0	0
Special termination benefits	0	0	0	0	0	0	0
Actuarial loss (gain)	16,050	13,226	31,276	1,321	(7,228)	(5,907)	25,369
Accumulated post retirement benefit obligation - end	108,530	230,775	339,305	12,934	16,591	29,525	368,830
Change in plan assets							
Fair value of plan assets - end of prior period	0	0	0	0	0	0	0
Actual return on plan assets	0	0	0	0	0	0	0
Employer contributions	8,295	19,443	27,738	807	26	833	28,571
Employee contributions	0	0	0	0	0	0	0
Benefits paid	(8,295)	(19,443)	(27,738)	(807)	(26)	(833)	(28,571)
Surplus paid out to employer	0	0	0	0	0	0	0
Settlement payments	0	0	0	0	0	0	0
Net transfer in (out)	0	0	0	0	0	0	0
Acquisitions (divestitures)	0	0	0	0	0	0	0
Actual plan expenses	0	0	0	0	0	0	0
Fair value of plan assets - end	0	0	0	0	0	0	0
Reconciliation of Funded Status - CICA 3461							
Benefit obligation - end	108,530	230,775	339,305	12,934	16,591	29,525	368,830
Fair value of plan assets - end	0	0	0	0	0	0	0
Funded status - surplus (deficit)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)
Employer contributions after measurement date	0	0	0	0	0	0	0
Unamortized Transitional Obligation	0	0	0	0	0	0	0
Unamortized Past Service Cost	(882)	(6,296)	(7,178)	(789)	(5,539)	(6,328)	(13,506)
Unamortized Net Actuarial Loss (Gain)	(2,296)	(67,489)	(69,785)	(2,973)	(17,101)	(20,074)	(89,859)
Accrued Benefit Asset/(Liability)	(111,708)	(304,560)	(416,268)	(16,696)	(39,231)	(55,927)	(472,195)
Reconciliation of funded status - FAS 158							
Benefit obligation - end	108,530	230,775	339,305	12,934	16,591	29,525	368,830
Fair value of plan assets - end	0	0	0	0	0	0	0
Funded status - surplus (deficit)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)
Employer contributions after measurement date	0	0	0	0	0	0	0
Net amt. recognized in statement of financial position (after FAS 158)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)
Amounts recognized in the statement of financial position consist of:							
Noncurrent assets	0	0	0	0	0	0	0
Current (liabilities)	(8,636)	(17,750)	(26,386)	(869)	(1,129)	(1,998)	(28,384)
Noncurrent (liabilities)	(99,894)	(213,025)	(312,919)	(12,065)	(15,462)	(27,527)	(340,446)
Net amount recognized in statement of financial position (after FAS 158)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)
Reconciliation of amounts not yet recognized in net periodic benefit cost and included in accumulated other comprehensive income (before tax):							
Transition (obligation) asset	0	0	0	0	0	0	0
Prior service (cost) credit	882	6,296	7,178	789	5,539	6,328	13,506
Net actuarial (loss) gain	2,296	67,489	69,785	2,973	17,101	20,074	89,859
Total recognized in AOCI at year-end	3,178	73,785	76,963	3,762	22,640	26,402	103,365
Cumulative employer contributions in excess of net periodic benefit cost	(111,708)	(304,560)	(416,268)	(16,696)	(39,231)	(55,927)	(472,195)
Net amount recognized in statement of financial position	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)

	Nortel Networks Life	Nortel Networks Medical	Nortel Networks Total	Nortel Technology Life	Nortel Technology Medical	Nortel Technology Total	Grand Total
Components of net periodic post retirement benefit cost - CICA							
Service cost	119	284	403	77	109	186	589
Interest cost	6,607	15,696	22,303	891	1,659	2,550	24,853
Actual return on plan assets	0	0	0	0	0	0	0
Actuarial (gain) loss	18,050	13,226	31,276	1,321	(7,228)	(5,907)	25,369
Plan Amendments	0	0	0	0	0	0	0
Curtailment loss (gain)	(1,360)	(2,113)	(3,473)	(979)	(1,383)	(2,362)	(5,835)
Cost arising in the period	23,416	27,093	50,509	1,310	(6,843)	(5,533)	44,976
Differences between cost arising in the period and costs recognized in the period in respect of:							
- Return on Assets	0	0	0	0	0	0	0
- Actuarial (gain) loss	(18,603)	(21,993)	(40,596)	(1,439)	6,168	4,729	(35,867)
- Plan amendments	(890)	(5,746)	(6,636)	(847)	(5,027)	(5,874)	(12,510)
- Transitional obligation (asset)	0	0	0	0	0	0	0
Benefit cost recognized	3,923	(646)	3,277	(976)	(5,702)	(6,678)	(3,401)
Components of net periodic post retirement benefit cost - FAS							
Service cost	119	284	403	77	109	186	589
Interest cost	6,607	15,696	22,303	891	1,659	2,550	24,853
Expected return on plan assets	0	0	0	0	0	0	0
Amortization of transition obligation (asset)	0	0	0	0	0	0	0
Amortization of prior service cost (credit)	(239)	(1,128)	(1,367)	(266)	(967)	(1,233)	(2,800)
Amortization of net actuarial loss (gain)	(553)	(8,767)	(9,320)	(118)	(1,060)	(1,178)	(10,498)
Curtailment - Immediate recognition of PSC	(651)	(4,618)	(5,269)	(581)	(4,060)	(4,641)	(9,910)
Curtailment - Income	(1,360)	(2,113)	(3,473)	(979)	(1,383)	(2,362)	(5,835)
Settlement loss (gain)	0	0	0	0	0	0	0
Special termination benefits	0	0	0	0	0	0	0
Net periodic post retirement benefit cost (income)	3,923	(646)	3,277	(976)	(5,702)	(6,678)	(3,401)
Changes in plan assets and benefit obligations recognized in other comprehensive income							
Prior service cost (credit) arising in period	0	0	0	0	0	0	0
Net actuarial loss (gain) arising in period	18,050	13,226	31,276	1,321	(7,228)	(5,907)	25,369
Total cost (credit) arising in period (a)	18,050	13,226	31,276	1,321	(7,228)	(5,907)	25,369
Minus							
Amortization of transition obligation (asset)	0	0	0	0	0	0	0
Amortization of prior service cost (credit)	(890)	(5,746)	(6,636)	(847)	(5,027)	(5,874)	(12,510)
Amortization of net actuarial loss (gain)	(553)	(8,767)	(9,320)	(118)	(1,060)	(1,178)	(10,498)
Total amortization reclassified through net periodic benefit cost (b)	(1,443)	(14,513)	(15,956)	(965)	(6,087)	(7,052)	(23,008)
Equals							
Total cost (credit) recognized in other comprehensive income (a) - (b)	19,493	27,739	47,232	2,286	(1,141)	1,145	48,377
Total recognized in net periodic benefit cost and other comprehensive income	23,416	27,093	50,509	1,310	(6,843)	(5,533)	44,876
Estimated amounts that will be amortized from accumulated other comprehensive income over the next fiscal year							
Transitional obligation (asset)	0	0	0	0	0	0	0
Prior service cost (credit)	(129)	(678)	(807)	(138)	(589)	(727)	(1,534)
Net actuarial loss (gain)	0	(9,551)	(9,551)	0	(2,420)	(2,420)	(11,971)
Total	(129)	(10,229)	(10,358)	(138)	(3,009)	(3,147)	(13,505)
Reconciliation of Accumulated Other Comprehensive Income (Loss) (AOCI)							0
AOCI at the end of the prior year	22,671	101,524	124,195	6,048	21,499	27,547	151,742
Other comprehensive income (loss)	(19,493)	(27,739)	(47,232)	(2,286)	1,141	(1,145)	(48,377)
AOCI at the end of the year	3,178	73,785	76,963	3,762	22,640	26,402	103,365
Assumptions							
At beginning of period							
Discount rate	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%	
Rate of compensation increase (excluding merit + promotion scale)	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	
Health care inflation - Select	6.14%	6.14%	6.14%	6.14%	6.14%	6.14%	
Health care inflation - Ultimate	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%	
Year ultimate rate reached	2028	2028	2028	2028	2028	2028	
At end of period							
Discount rate	6.09%	6.09%	6.09%	6.09%	6.09%	6.09%	
Rate of compensation increase (excluding merit + promotion scale)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	
Health care inflation - Select	6.11%	6.11%	6.11%	6.11%	6.11%	6.11%	
Health care inflation - Ultimate	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%	
Year ultimate rate reached	2028	2028	2028	2028	2028	2028	

Appendix F

Employer Certification

With respect to the Report on Non-Pension Post Retirement Benefit Cost and Disclosure for the Fiscal Year Ending December 31, 2009 under CICA Section 3461 and US accounting standards of Nortel's Non-Pension Post Retirement Benefit Plan, I hereby certify that, to the best of my knowledge and belief:

- The membership data supplied to the actuary provides a complete and accurate description of all persons who are entitled to benefits under the terms of the Plan for service up to the date of the valuation;
- A copy of the plan documents and of all amendments made up to December 31, 2009 were supplied to the actuary;
- All substantive commitments have been communicated to the actuary;
- Accounting policies adopted by the Company are those described in this report;
- The actuarial methods, amortization method and amortization periods to be used for the purposes of the valuation are those described in this report;
- Management's best-estimate assumptions for purposes of the valuation of the Plan and the extrapolation of the financial position of the Plan as of the fiscal year end December 31, 2009 are those described in this report; and
- All events subsequent to the valuation that may have an impact on the results of the valuation have been communicated to the actuary.

2/17/10
Date

Elizabeth Smith
Signed

Elizabeth Smith
Name

Director Benefits Accounting
Title

Appendix G

Glossary of CICA 3461 and US Accounting Terms

This section illustrates the main difference in terminology between CICA 3461 and US accounting terms.

CICA 3461	US Accounting Standards	Definition
Accrued benefit asset	Prepaid postretirement benefit cost	Cumulative employer contributions in excess of benefit cost.
Accrued benefit liability	Accrued postretirement benefit cost	The accumulation of benefit costs that have not yet been funded.
Accrued benefit obligation	Accumulated Postretirement Benefit Obligation (APBO)	The actuarial present value of all benefits expected to be received, attributed to employee service rendered before the valuation date.
Current service cost	Service cost	The actuarial present value of benefits attributed to services rendered by employees during a one year period.
Benefit cost	Net periodic postretirement benefit cost	The amount recognized in the employer's financial statements as the cost of a post retirement benefit plan for a period.
Past service cost	Prior service cost	The cost of benefit improvements attributable to plan participants' prior service pursuant to a plan amendment or a plan initiation that provides benefits in exchange for plan participants' prior service.
N/A	Accumulated Other Comprehensive Income	Balance sheet item reported on company's financial statement. As of the fiscal year-end, it is equal to the sum of the net actuarial gain (loss) plus prior service credit (cost) plus transition asset (obligation) not yet recognized in net income. The amount shown in this report is the before-tax amount and the amount shown on the company's financial statement will be after-tax.
N/A	Other Comprehensive Income	Except for certain amounts that are amortized, a company's net income does not include actuarial gains and losses during a year nor plan amendments during the year. These amounts are included in other comprehensive income. Other comprehensive income equals the change in accumulated other comprehensive income during the fiscal year. Other comprehensive income is shown on a company's books as an after-tax amount but is shown in this report before taxes.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Mercer (Canada) Limited
161 Bay Street
P.O. Box 501
Toronto, Ontario M5J 2S5
416 868 2000

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APPENDIX C – MERCER FEBRUARY 23 LETTER

Ellen Whelan, FSA, FCIA
Principal

161 Bay Street
P.O. Box 501
Toronto, Ontario M5J 2S5
416 868 2124 Fax 416 868 8999
ellen.whelan@mercer.com
www.mercer.ca

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

23 February 2010

Lee K. Close
Vice President, Transaction Advisory Services
Ernst & Young Inc.
100 Queen Street, Suite 1600
Ottawa, ON K1P 1K1

Private & Confidential

Subject: Nortel Canadian Post Employment Benefits Accounting in Accordance with CICA 3461 and US Accounting Standards for Fiscal 2009

Dear Lee:

As requested, this letter is to advise of the changes between the February 2, 2010 and February 23, 2010 letter for the post employment benefits.

The content and figures contained in each letter are the same except in the February 23, 2010 version the following paragraph has been added on page 1:

> In February 2010, we have been notified by Nortel that they will stop paying non-pension benefits after December 31, 2010. We have also been advised by Nortel that it intends to account for this event as a subsequent event. Any required curtailment and settlement in this respect would be accounted for in fiscal 2010 or later.

Let me know if you have any further questions.

Sincerely,

Ellen Whelan

Ellen Whelan, FSA, FCIA
Principal
Copy:

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Gale Rubenstein, Goodmans LLP
Elizabeth Smith, Nortel Networks Limited
Wendy Ward, Nortel Networks Limited
Paul Forestell, Mercer
Teresa Palandra, Mercer

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IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF NORTEL NETWORKS CORPORATION *et al.*

Court File No: 09-CL-7950

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

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GOODMANS LLP
Barristers & Solicitors
Bay Adelaide Centre, 333 Bay Street
Toronto, Canada M5H 2S7

Jay A. Carfagnini (LSUC#: 222936)
Joseph Pasquariello (LSUC# 37389C)
Christopher G. Armstrong (LSUC# 55148B)

Tel: 416.979.2211
Fax: 416.979.1234

Lawyers for the Monitor, Ernst & Young Inc.