

**NOTICE OF PENDENCY AND CERTIFICATIONS OF CLASS ACTIONS AND PROPOSED SETTLEMENTS, MOTIONS FOR ATTORNEYS' FEES AND SETTLEMENT FAIRNESS HEARINGS (NORTEL II NOTICE)**

This Notice relates to the following actions (the "Nortel II Actions"):

- *In Re Nortel Networks Corp. Securities Litigation*, Master File No. 04 Civ. 2115 (LAP) in the United States District Court for the Southern District of New York;
- *Gallardi v. Nortel Networks Corporation*, No. 05-CV-285606CP in the Ontario Superior Court of Justice;
- *Skarstedt v. Corporation Nortel Networks*, No. 500-06-000277-059 in the Superior Court of Quebec District of Montreal;

If you bought Nortel Networks Corporation ("Nortel") common stock or call options on Nortel common stock, or you wrote (sold) put options on Nortel common stock, during the period April 24, 2003 through April 27, 2004, inclusive (the "Class Period"), your rights may be affected by class action lawsuit(s) and you may be entitled to a payment from a proposed class action settlement.

*Courts in the United States and Canada have authorized this notice.  
This is not a solicitation from a lawyer.*

- The "Settlement" described herein will provide total proceeds worth approximately \$1,074,265,298, including \$370,157,418 in cash, plus 314,333,875 shares of common stock of Nortel ("Settlement Shares"), having an aggregate market value as of June 30, 2006 of approximately \$704,107,880, for the benefit of the Class described herein (See response to question 1 below defining the "Class" and "Class Members"). Unless otherwise stated, all dollar amounts referenced herein are in U.S. dollars.
- In addition, Nortel will adopt the corporate governance provisions described in Appendix A of this Notice. Nortel will also contribute to the Class one-quarter of the recovery, if any, it obtains in existing litigation by Nortel against certain former senior corporate officers.
- The Settlement resolves lawsuits over whether Nortel misled investors about its historic and future earnings during the Class Period. The Settlement is contingent upon court-approval of the settlement of several related actions against Nortel and other defendants in the United States and Canada.
- Your legal rights are affected whether you act or do not act. Read this notice carefully.

YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT:	
<b>SUBMIT A CLAIM FORM BY November 20, 2006</b>	The only way to get a distribution from the Net Settlement Fund and Net Settlement Shares.
<b>EXCLUDE YOURSELF (Opt-out of the Class) BY September 19, 2006</b>	Get no payment. This is the only option that allows you to ever be part of any other lawsuit against Nortel and the other Released Parties about the Settled Claims (as those terms are defined in the response to question 12 below).
<b>OBJECT BY September 19, 2006</b>	Write to the Court(s) about why you do not like the Settlement, Plan of Allocation, or Attorneys' Fee Applications. See responses to questions 18, 20 and 22 below.
<b>GO TO HEARINGS</b>	Ask to speak in Court(s) about the Settlement, Plan of Allocation, or Attorneys' Fee Applications. See responses to questions 18, 20 and 22 below.
<b>DO NOTHING</b>	Get no payment. Give up rights.

- These rights and options - **and the deadlines to exercise them** - are explained in this notice.
- The Courts in charge of the various U.S. and Canadian actions subject to this Settlement still have to decide whether to approve the Settlement. Payments will be made if all of the Courts approve the Settlement and after appeals, if any, are resolved. Please be patient.

**SUMMARY NOTICE**

Statement of Plaintiff Recovery

Pursuant to the Settlement described herein, a Settlement Fund consisting of \$370,157,418 in cash has been established, and 314,333,875 shares of Nortel common stock will also be provided, for the benefit of the Class. Lead Plaintiffs estimate that there were approximately 2.9 billion shares of Nortel common stock traded during the Class Period which may have been damaged. Lead Plaintiffs estimate that the average recovery per damaged share of Nortel common stock purchased during the Class

Le présent avis est aussi disponible en français. Vous pouvez l'obtenir sans frais en vous adressant à Nortel II Securities Litigation Settlement, c/o The Garden City Group, Inc., Claims Administrator, P.O. Box 9082, Dublin, OH 43017-0982 [www.nortelsecuritieslitigation.com](http://www.nortelsecuritieslitigation.com) ou à Trudel & Johnston

Period under the Settlement is 10.7¢ in cash and 0.127 Settlement Shares, per damaged share<sup>1</sup> before deduction of Court-awarded attorneys' fees and expenses and the costs of administration. Class Members who transacted in options on Nortel common stock may also receive a payment from the Settlement Fund, but the various terms of those options and available records concerning such option transactions do not permit a useful estimate to be provided concerning the number of affected options or the recovery on those option transactions. See response to question 9 below concerning payments to Class Members. A Class Member's actual recovery will be determined in accordance with the Plan of Allocation set forth on pages 13-18 below.

#### Statement of Potential Outcome of Case

The parties strongly disagree on both liability and damages and do not agree on the average amount of damages per share that would be recoverable if plaintiffs were to have prevailed on each claim alleged.

Plaintiffs estimated that the potential damages to the Classes in the Nortel II Actions and in certain similar actions relating to a earlier class period (see response to question 8 below describing these "Nortel I Actions") could well have been in excess of the Gross Settlement Fund (as defined in response to question 1 below). The defendants deny that they are liable to the plaintiffs or the Class and deny that plaintiffs or the Class have suffered any damages.

#### Statement of Attorneys' Fees and Costs Sought

As more fully described in response to question 17 below, plaintiffs' counsel are moving before their respective Courts for awards of attorneys' fees and for reimbursement of expenses incurred in the prosecution of their Actions as follows:

- Lead Plaintiffs' Counsel in the U.S. Action are moving for an award to counsel of attorneys' fees in cash and shares in an amount not to exceed ten percent (10%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the U.S. Action in an amount not to exceed \$4.3 million.
- Ontario National Class Counsel will move before the Ontario Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point seven percent (0.7%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the Ontario National Action in an amount not to exceed \$225,000.
- Quebec Class Counsel will move before the Quebec Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point forty-five percent (0.45%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the Quebec Action in an amount not to exceed \$150,000.

The total requested attorneys fees and litigation expenses would amount to an average of 1.5¢ in cash and 0.012 Settlement Shares, per damaged share in total for fees and expenses. Application will also be made for reimbursement to the Lead Plaintiffs, Ontario Teachers' Pension Plan Board and the Department of the Treasury of the State of New Jersey and its Division of Investment each for an amount not to exceed \$30,000, for reimbursement of their reasonable costs and expenses (including lost wages) directly relating to their representation of the "U.S. Global Class" (as defined in response to question 1 below).

#### Further Information

Further information may be obtained by contacting the following counsel:

- For the U.S. Action: Lead Plaintiff's Counsel: Jeffrey N. Leibell, Bernstein Litowitz Berger & Grossmann LLP, 1285 Avenue of the Americas, New York, New York 10019.
- For the Ontario National Action: Ontario National Class Counsel: Joel P. Rochon, Rochon Genova LLP, 121 Richmond Street West, Suite 900, Toronto, Ontario M5H 2K1.
- For the Quebec Action: Quebec Class Counsel: Philippe H. Trudel, Trudel & Johnston, 85 de la Commune East, 3<sup>rd</sup> Floor, Montreal, Quebec H2Y 1J1.

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<sup>1</sup> An allegedly damaged share might have been traded more than once during the Class Period, and the indicated average recovery would be the total for all purchasers of that share.

Reasons for the Settlement

Plaintiffs' principal reason for the Settlement is the benefit to be provided to the Class now. This benefit must be compared to the risk that no recovery might be achieved after a contested trial and likely appeals, possibly years into the future, and the further significant risk that even if the plaintiffs and the Class successfully obtained a substantial judgment (after years of additional litigation and appeals) the defendants might not be able to pay an amount significantly greater than the value of the Gross Settlement Fund.

Lead Plaintiffs and Lead Plaintiffs' Counsel, in consultation with their investment banking and economic damages experts, considered the Company's current and anticipated financial condition, and also considered the extent of the Company's applicable insurance and the likely depletion of that insurance as a result of continued litigation, both of which, in their view, limited the amount that might have been recovered for the U.S. Global Class after trial.

[END OF COVER PAGE]

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**BASIC INFORMATION**

1.    Why did I get this notice package?
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You or someone in your family may have purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between April 24, 2003 through April 27, 2004, inclusive. Such purchasers may be members of the Classes in the Nortel II Actions (as defined below) and are generally referred to herein as “Class Members” and are collectively referred to as the “Class.” Class Members include members of the “U.S. Global Class,” the “Ontario National Class,” and/or the “Quebec Class.”

The Courts have directed that this Notice be sent to Class Members because they have a right to know about their options prior to the Courts deciding whether to approve the settlement of these lawsuits, and to understand how a class action lawsuit may generally affect their rights. If the Courts approve the Settlement, and after any objections and appeals are resolved, an administrator appointed by the Courts will make the payments that the Settlement allows.

This package explains the lawsuits, the Settlement, Class Members' legal rights, what benefits are available, who is eligible for them, and how to get them.

The Courts in charge of the Nortel II Actions are as follows:

<b>Court</b>	<b>Action</b>
United States District Court for the Southern District of New York ("U.S. Court")	<i>In re Nortel Networks Corp. Securities Litigation</i> , Master File No. 04 Civ. 2115 (LAP) ("U.S. Action")
Ontario Superior Court of Justice ("Ontario Court")	<i>Gallardi v. Nortel Networks Corp.</i> , No. 05-CV-285606CP ("Ontario National Action")
Superior Court of Quebec, District of Montreal ("Quebec Court")	<i>Skarstedt v. Corporation Nortel Networks</i> , No. 500-06-000277-059 ("Quebec Action")

The entities who sued are called the plaintiffs, and the company and the persons they sued, Nortel and certain of its officers and directors, are called the defendants.

The Settlement in the U.S. Action resolves the claims on behalf of persons or entities, wherever located, who bought Nortel common stock or call options on Nortel common stock, or who wrote (sold) put options on Nortel common stock, during the period April 24, 2003 through April 27, 2004, inclusive, and suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange (the "U.S. Global Class"). In addition, the Settlement covers the two Canadian actions referred to above (the "Canadian Actions"). The Settlement in the Canadian Actions resolves the claims on behalf of the following persons and entities:

- **Ontario National Class:** All persons or entities, except members of the Quebec Class, who while residing in Canada at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between April 24, 2003 through April 27, 2004, inclusive.
- **Quebec Class:** All persons or entities who, while residing in Quebec at the time, purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between April 24, 2003 through April 27, 2004, inclusive. For purposes of the definition of Quebec Class, an entity means a legal person established for a private interest, a partnership or an association if at all times during the 12-month period preceding February 18, 2005, not more than 50 persons bound to it by contract of employment were under its direction or control and if it is dealing at arm's length with the representative of the Quebec Class. Other entities may be members of the Ontario National Class.

Members of the classes certified in the Canadian Actions who suffered damages as a result of their Class Period transactions in Nortel securities are also members of the U.S. Global Class.

Regardless of how many classes you are a member of, you will not be entitled to recover more than once for your claim.

2. What are these lawsuits about?
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Nortel is a Canadian corporation with its principal executive offices located in Brampton, Ontario, Canada and has offices located throughout the United States and Canada. Nortel filed annual, quarterly and other reports with the Ontario Securities Commission and the (United States) Securities and Exchange Commission (the "SEC") and its common stock is listed and traded on both the Toronto Stock Exchange and the New York Stock Exchange under the symbol NT. Nortel is engaged in the business of providing networking and communication services to customers located in over 150 countries.

On September 10, 2004, Lead Plaintiffs in the U.S. Action filed a Consolidated Class Action Complaint (the "Complaint"), which alleged that Nortel and certain of its former officers perpetrated a fraud on the investing public by improperly accounting for the Company's reserve accounts, reversing millions of dollars into income to make the market believe that Nortel had returned to profitability, when, in fact, it had not.

Lead Plaintiffs filed their Second Amended Consolidated Class Action Complaint (the "Second Amended Complaint") on September 16, 2005 based on Lead Plaintiffs' Counsel's extensive discovery efforts, which included a targeted review of a substantial amount of the approximately 21 million pages of documents produced by Nortel alone. In addition to the above, the Second Amended Complaint alleged that the members the Audit Committee of Nortel's Board of Directors (the "Audit Committee Defendants") violated Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder by issuing materially false and misleading statements during the Class Period in a scheme to artificially inflate the value of Nortel publicly-traded securities. Specifically, Lead Plaintiffs alleged that the Audit Committee Defendants disregarded the warning provided to them by Nortel's auditors, Deloitte & Touche LLP ("D&T"), that Nortel was reversing hundreds of millions of dollars of reserves into income at the same time that Nortel's projected losses turned into profits, and that the Audit Committee Defendants ignored D&T's recommendation that Nortel institute a rigorous review of its remaining balance sheet provisions, choosing instead to

approve numerous financial disclosures reporting positive earnings results and a premature restatement that deceived investors as to Nortel's true financial condition.

Similar factual allegations and claims are made in the Canadian Actions under Canadian law.

The defendants deny that they violated any laws or did anything wrong. Defendants believe that their actions were proper under the U.S. federal securities laws and applicable Canadian law, assert that they are not liable to the plaintiffs or the Class, and have asserted several affirmative defenses to the allegations in the Complaints.

**3. Why are these class actions?**

In a class action, one or more people, called class representatives, sue on behalf of people who have similar claims. All these people are a class or class members. Bringing a case, such as this one, as a class action allows uniform adjudication of many similar claims of persons and entities that might be economically too small to bring in individual actions. One court resolves the issues for all class members, except for those who exclude themselves from the class.

In these Nortel II Actions the class representatives are:

<b>Nortel II Action</b>	<b>Class Representatives</b>
U.S. Action	Ontario Teachers' Pension Plan Board and the Department of the Treasury of the State of New Jersey and its Division of Investment
Ontario National Action	Peter Gallardi
Quebec Action	Clifford W. Skarstedt

**4. Why is there a Settlement?**

The parties recognized that the claims asserted in the Nortel I Actions, as well as in the Nortel II Actions, if ultimately proved by the plaintiffs in those actions, could have resulted in judgments that exposed defendants to substantial damage awards. Plaintiffs recognized that, even if they were successful in obtaining judgments against Nortel and the other defendants, there was a significant risk that such judgments would not be fully collectible. Nortel recognized that the continued defense of the Nortel I Actions and the Nortel II Actions would require significant attention of its management and would distract Nortel from pursuing its business affairs, and that a plaintiffs' judgment could be a very significant impediment to Nortel's future success. Accordingly, the parties considered that a resolution of the Nortel I Actions and the Nortel II Actions was advisable.

The Courts have not finally decided in favor of the plaintiffs or the defendants. Instead, all parties agreed to a settlement. That way, they avoid the risks and cost of trial, the people affected will get compensation, and Nortel will be released of burdensome and distracting litigation that potentially could be a significant impediment to Nortel's future success. The Class Representatives and their counsel think the Settlement is fair, reasonable and adequate, and in the best interests of, all Class Members.

**WHO IS IN THE SETTLEMENT**

To see if you will get cash and Nortel common stock from this Settlement, you first have to decide if you are a Class Member.

**5. How do I know if I am part of the Settlement?**

The U.S. Court decided for the purposes of the proposed Settlement in the U.S. Action that everyone who fits the following description is a Class Member: *all persons and entities who purchased Nortel common stock, who purchased call options on Nortel common stock, or who wrote (sold) put options on Nortel common stock (the "Nortel Securities") during the period between April 24, 2003 through April 27, 2004, inclusive (the "Class Period") and who suffered damages thereby, including, but not limited to, those persons or entities who traded in Nortel Securities on the New York Stock Exchange and/or the Toronto Stock Exchange.* The U.S. Global Class is not limited to U.S. residents.

The two Canadian Courts generally decided for the purposes of the proposed Settlement that everyone residing in Canada who fits the following description will be Class Members: *all persons and entities who purchased Nortel common stock, who purchased call options on Nortel common stock, or who wrote (sold) put options on Nortel common stock during the period between April 24, 2003 through April 27, 2004, inclusive.* To determine which specific Canadian Class you might be part of, please see the definitions of Ontario National Class and Quebec Class above in the response to question 1. Unlike the requirements for membership in the U.S. Global Class, there is no requirement for you to have suffered damages to be a member of Ontario National Class, or Quebec Class.

6. Are there exceptions to being included?

Excluded from the Class are (i) Nortel, Frank Dunn, Douglas C. Beatty, Michael J. Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr.; (ii) James Kinney (Finance Chief for Nortel's Wireless Networks Division, Richardson, Texas), Ken Taylor (Vice President for Nortel's Enterprise Networks Division, Raleigh, North Carolina), Craig Johnson (Finance Director for Nortel's Wireline Networks Division, Richardson, Texas), Doug Hamilton (Finance Director for Nortel's Optical Networks Group, Montreal, Quebec), Michel Gasnier (Vice President of Finance for Europe), Robert Ferguson (Vice President of Finance for China), and William Bowrey (Controller for Asia); (iii) members of the immediate family of each of the defendants and/or any of the individuals referenced above; (iv) any entity in which any defendant and/or any of the individuals referenced above has a controlling interest; (v) any parent, subsidiary or affiliate of Nortel; (vi) any person who was an officer or director of Nortel or any of its subsidiaries or affiliates during the Class Period; and (vii) the legal representatives, heirs, predecessors, successors or assigns of any of the excluded persons or entities (the "Excluded Persons").

If one of your mutual funds owned shares of Nortel common stock during the Class Period, that alone does not make you a Class Member. You are a Class Member only if you directly purchased shares of Nortel common stock, purchased call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the Class Period. Contact your broker to see if you purchased shares of Nortel common stock, purchased call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the Class Period.

If you **sold** Nortel common stock, **sold** call options on Nortel common stock, or **purchased** put options on Nortel common stock during the Class Period that alone does not make you a Class Member. You are a Class Member only if you **purchased** Nortel common stock, **purchased** call options on Nortel common stock, or **wrote (sold)** put options on Nortel common stock during the Class Period.

7. What if I am still not sure I am included?

If you are still not sure whether you are included, you can ask for free help. You can call 1(866) 881-7495 or visit [www.nortelsecuritieslitigation.com](http://www.nortelsecuritieslitigation.com) for more information. Or you can fill out and return the Proof of Claim form described in response to question 10 below, to see if you qualify. Note, however, that if you return a Proof of Claim form you will be releasing all your "Settled Claims" against the "Released Parties." (See response to question 12 below.)

### THE SETTLEMENT BENEFITS — WHAT YOU GET

8. What does the Settlement provide?

In exchange for the Settlement and/or dismissal of the Nortel II Actions, Nortel and its insurers agreed to create cash settlement funds for the benefit of the Class herein consisting of \$370,157,418 in cash, which is earning interest, and Nortel agreed to issue 314,333,875 Settlement Shares of its common stock, having an aggregate market value as of June 30, 2006 of \$704,107,880, to be divided, after fees and expenses as awarded by the Courts, among all Class Members who submit valid Proof of Claim forms. Nortel has also agreed to share with the Class 25% of any actual gross recovery obtained in existing litigation against certain former Nortel officers (the "Contingent Recovery"). The cash, Settlement Shares, and Contingent Recovery, and any interest or dividends earned thereon, are referred to as the "Gross Settlement Fund."

In addition, Nortel will adopt the corporate governance provisions in Appendix A to this Notice.

A separate lawsuit, *In re Nortel Networks Corp. Securities Litigation*, Consolidated Civil Action No. 01 Civ. 1855 (RMB) (S.D.N.Y.) and related Canadian actions in Ontario, Quebec and British Columbia (the "Nortel I Actions"), are also being settled on behalf of investors who purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period **October 24, 2000 through February 15, 2001, inclusive (the "Nortel I Class Period")**, including, but not limited to, those persons or entities who traded in such Nortel securities on the New York Stock Exchange and/or the Toronto Stock Exchange. The settlement in the Nortel I Actions will provide \$438,667,428 in cash and 314,333,875 Settlement Shares to the members of the Classes in the Nortel I Actions. It is a condition of both the Settlement in the Nortel II Actions and the settlement in the Nortel I Actions that the Settlement be approved by each of the Courts in all of the actions. The Settlement is also contingent upon appropriate securities regulatory and stock exchange approvals.

9. How much will my payment be?

The amount of your payment and Settlement Shares will depend on the number of valid Proof of Claim forms that Class Members send in, how many shares of Nortel common stock you bought, the number of call options on Nortel common stock you bought, and/or the number of put options on Nortel common stock you wrote (sold), and when you bought and sold them.

The value of the Settlement Shares is expected to fluctuate over time and is not guaranteed. No representation can be made as to what the value of the Settlement Shares may be at the time the Settlement Shares are distributed to Class Members who submitted acceptable Proofs of Claim. Class Members receiving Settlement Shares who may be deemed to be "affiliates" of Nortel, within the meaning of (United States) federal securities laws, would be subject to certain limitations on the resale of Settlement Shares as provided in Rule 145 under the (United States) Securities Act of 1933, as amended, 15 U.S.C. § 77c(a)(1). Any Class Member who might be deemed to be an affiliate should consult with counsel as to these limitations. In addition, the resale of the Settlement Shares in Canada may be subject to certain limitations under Canadian securities laws, which may affect some Class Members.

You can calculate your Recognized Claim in accordance with the formula shown below in the Plan of Allocation. It is unlikely that you will get a payment for all of your Recognized Claim. After all Class Members have sent in their Proof of Claim forms, the payment you get in cash and Nortel common stock will be a part of the Net Cash Settlement Fund and a part of the Net Settlement Shares equal to your Recognized Claim divided by the total of everyone's Recognized Claims. See the Plan of Allocation on pages 13-18 for more information on how your Recognized Claim will be determined. Payments to members of the Quebec Class may be subject to deductions pursuant to Quebec law payable to the *Fonds d'aide aux recours collectifs* of Quebec.

## HOW YOU GET A PAYMENT — SUBMITTING A PROOF OF CLAIM FORM

### 10. How can I get a payment?

To qualify for a payment, you must send in a Proof of Claim form. A Proof of Claim form is being circulated with this Notice. You may also get a Proof of Claim form on the Internet at [www.nortelsecuritieslitigation.com](http://www.nortelsecuritieslitigation.com). Read the instructions carefully, fill out the Proof of Claim form, include all the documents the form asks for, sign it, and mail it, by first class mail, postmarked no later than **November 20, 2006**.

### 11. When will I get my payment?

The U.S. Court will hold a hearing on **October 26, 2006**, to decide whether to approve the Settlement. Settlement approval hearings will be held in the Canadian Actions on dates shown below in the response to question 20. The Courts in the Nortel I Actions will also hold hearings in the same time frame as these hearings. Approval of settlement of the Nortel I Actions is also a condition to the Settlement of these actions. If all the Courts approve the Settlement, there may be appeals. It is always uncertain whether these appeals can be resolved, and resolving them can take time, perhaps more than a year. It also takes time for all the Proofs of Claim to be processed. After conclusion of the approval hearings, any appeals, and claims processing, the funds and Settlement Shares will be distributed. Please be patient.

### 12. What am I giving up to get a payment or stay in the Class?

Unless you validly request exclusion ("opt out"), you are staying in the Class, and that means that, upon the "Effective Date," you will release all "Settled Claims" (as defined below) against the "Released Parties" (as defined below).

"Settled Claims" means any and all claims, debts, demands, rights or causes of action, suits, matters, and issues or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States or Canadian federal, state, provincial, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or unmatured, whether class or individual in nature, including both known claims and Unknown Claims (herein defined), (i) that have been asserted in any of the Nortel II Actions against any of the Released Parties, or (ii) that could have been asserted in any forum by the Class Members or any of them against any of the Released Parties which arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Nortel II Actions and which relate to the purchase of Nortel common stock or call options on Nortel common stock or the writing (sale) of put options on Nortel common stock during the Class Period, or (iii) any oppression or other claims under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended, that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions, set forth or referred to in the Nortel II Actions. "Settled Claims" does not mean or include claims, if any, against the Released Parties arising under the (United States) *Employee Retirement Income Security Act of 1974*, as amended, 29 U.S.C. § 1001, *et seq.* ("ERISA") that are not common to all Class Members and which ERISA claims are the subject of an action pending before the Judicial Panel on Multidistrict Litigation, denominated *In re Nortel Networks Securities and "ERISA" Litigation*, MDL Docket No. 1537. "Settled Claims" further does not include: (a) the action in *Rohac et al. v. Nortel Networks Corp. et al.*, Ontario Superior Court of Justice, Court File No. 04-CV-3268 and (b) the application brought in *Indiana Electrical Workers Pension Trust Fund IBEW and Laborers Local 100 and 397 Pension Fund v. Nortel Networks Corporation*, Ontario Superior Court of Justice, Court File No. 49059, for leave pursuant to the *Canada Business Corporations Act* to commence a representative action in the name of and on behalf of Nortel against certain of the Released Parties.

"Released Parties" means any and all of the defendants in the Nortel II Actions (namely: Nortel, Frank Dunn, Douglas C Beatty, Michael J. Gologly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr., and Deloitte & Touche LLP), their past or present subsidiaries, parents, principals, affiliates, general or limited partners or partnerships, successors and predecessors, heirs, assigns, officers, directors, agents, employees, attorneys, advisors, investment advisors, investment bankers, underwriters, insurers, co-insurers, re-insurers, accountants, auditors, consultants, administrators, executors, trustees, personal representatives, immediate family members and any person, firm, trust, partnership, corporation, officer, director or other individual or entity in which any defendants in the Nortel II Actions has a controlling interest or which is related to or affiliated with any of the defendants in the Nortel II Actions, and the legal representatives, heirs, executors, administrators, trustees, successors in interest or assigns of the defendants in the Nortel II Actions

"Unknown Claims" means any and all Settled Claims which any of the Lead Plaintiffs, Canadian Representative Plaintiffs, or Class Members do not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties, which if known by him, her or it might have affected his, her or its decision(s) with respect to the Settlement. With respect to any and all Settled Claims, the parties stipulate and agree that, upon the Effective Date, the Lead Plaintiff, Canadian Representative Plaintiffs shall expressly waive, and each Class Member shall be deemed to have waived, and by operation of the Judgments shall have expressly waived, any and all provisions, rights and benefits conferred by any law of any state, province or territory of the United States or Canada, or principle of common law, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

Lead Plaintiff, Canadian Representative Plaintiffs and Nortel acknowledge, and Class Members by operation of law shall be deemed to have acknowledged, that the inclusion of "Unknown Claims" in the definition of Settled Claims was separately bargained for and was a key element of the Settlement.

In addition, upon the Effective Date of the Settlement, all Class Members on behalf of themselves, their personal representatives, heirs, executors, administrators, trustees, successors and assigns, with respect to each and every Settled Claim, release and forever discharge, and be forever enjoined from prosecuting, any Settled Claims against any of the Released Parties, and shall not institute, continue, maintain or assert, either directly or indirectly, whether in the United States, Canada or elsewhere, on their own behalf or on behalf of any class or any other person, any action, suit, cause of action, claim or demand against any Released Party or any other person who may claim any form of contribution or indemnity (save for a contractual indemnity) from any Released Party in respect of any Settled Claim or any matter related thereto, at any time on or after the Effective Date.

The "Effective Date" will occur when Orders entered by all the Courts approving the Settlement in the Nortel I Actions and the Nortel II Actions become final and not subject to appeal and when all conditions of the Stipulation have been met.

If you remain a member of the Class, the applicable Court's orders will apply to you and legally bind you.

### REQUESTING EXCLUSION ("OPTING OUT") FROM THE SETTLEMENT

If you do not want a payment from this Settlement, but you want to keep any right you may have on your own to sue or continue to sue Nortel and the other Released Parties about the Settled Claims, then you must take steps to get out of the Class. This process is called excluding yourself from — or is sometimes referred to as "opting out" of — the Class. Nortel may withdraw from and terminate the Settlement if persons or entities who would otherwise be Class Members, and who purchased in excess of a certain amount of Nortel common stock, opt out of the Class.

13. How do I get out of the proposed Settlement?
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To opt out of the Class, you must send a signed letter by mail stating that you "request exclusion from the Class in the *Nortel II Securities Litigation*." Your letter should include the date(s), price(s), and number(s) of shares of all purchases and sales of Nortel common stock and/or Nortel common stock options during the Class Period. In addition, be sure to include your name, address, telephone number, and your signature. You must mail your exclusion request by first class mail postmarked no later than **September 19, 2006** to:

Nortel II Securities Litigation Exclusions  
c/o The Garden City Group, Inc  
Claims Administrator  
P.O. Box 9083  
Dublin, OH 43017-0983

You cannot exclude yourself by telephone or by e-mail. If you ask to be excluded, you will not get any settlement payment, and you cannot object to the Settlement. You will not be legally bound by anything that happens in these Nortel II Actions, and you may be able to sue (or continue to sue) Nortel and the other Released Parties in the future.

14. If I do not exclude myself, can I sue Nortel and the other Released Parties for the same thing later?

No. Unless you exclude yourself, you give up any rights to sue Nortel and the other Released Parties for any and all Settled Claims. If you have a pending lawsuit, speak to your lawyer in that case immediately. You must exclude yourself from the Class to continue your own lawsuit. Remember, the exclusion deadline is **September 19, 2006**.

15. If I exclude myself, can I get a payment from the proposed Settlement?

No. If you exclude yourself, do not send in a Proof of Claim form to ask for any money or shares. But, you may exercise any right you may have to sue, continue to sue, or be part of a different lawsuit against Nortel and the other Released Parties.

### THE LAWYERS REPRESENTING YOU

16. Do I have a lawyer in this case?

The following firms represent Class Members:

- For the U.S. Action: Lead Plaintiffs' Counsel Bernstein Litowitz Berger & Grossmann LLP, 1285 Avenue of the Americas, New York, New York 10019, together with Lowenstein Sandler P.C., 65 Livingston Avenue, Roseland, New Jersey 07068;
- For the Ontario National Action: Rochon Genova LLP, 121 Richmond Street West, Suite 900, Toronto, Ontario M5H 2K1 and Lerner LLP, 130 Adelaide Street West, Suite 2400, Toronto, Ontario M5H 3P5;
- For the Quebec Action: Trudel & Johnston s.e.n.c., 85 de la Commune East, 3<sup>rd</sup> Floor, Montreal, Quebec H2Y 1J1;

These lawyers are called Class Counsel. You will not be separately charged for these lawyers. The U.S. Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the U.S. Action. The Ontario Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the Ontario National Action. The Quebec Court will determine the amount of lawyers' fees and expenses to be awarded to the law firms in the Quebec Action. All lawyers' fees and expenses awarded by the respective Courts will be paid from the Gross Settlement Fund. Class Members may, but are not required to, hire their own lawyers at their own expense.

17. How will the lawyers and the Class Representatives be paid?

Plaintiffs' counsel are moving before their respective Courts for awards of fees and for reimbursement of expenses incurred in the prosecution of their Actions as follows:

Lead Plaintiffs' Counsel in the U.S. Action, are moving before the U.S. Court for an award to counsel of attorneys' fees in cash and shares in an amount not to exceed ten percent (10%) of the Gross Settlement Fund after deducting litigation expenses awarded by the U.S. Court, and for reimbursement of expenses incurred in connection with the prosecution of the U.S. Action in an amount not to exceed \$4,300,000. Plaintiffs' counsel have agreed that, notwithstanding the terms of their retainer agreement with Lead Plaintiffs, two large public pension funds, which sets a fee of approximately 12.5% of the Gross Settlement Fund, they will seek a fee no greater than 10%. Lead Plaintiffs' Counsel has not advised the Lead Plaintiffs with respect to their review of a proposed fee application or their determination as to whether the Lead Plaintiffs should approve a proposed fee application, including the amount thereof, in whole or in part.

Ontario National Class Counsel will move before the Ontario Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point seven percent (0.7%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of the Ontario National Action in an amount not to exceed \$225,000.

Quebec Class Counsel will move before the Quebec Court for approval of an award to them of counsel fees in cash and shares in an amount not to exceed point forty-five percent (0.45%) of the Gross Settlement Fund and for reimbursement of expenses incurred in connection with the prosecution of the Quebec Action in an amount not to exceed \$150,000.

Plaintiffs' counsel, without further notice to the Class, may subsequently apply to the appropriate Court for fees and expenses incurred in connection with administering and distributing the settlement proceeds to the members of the Class and any proceedings subsequent to the hearings.

Application will also be made for reimbursement to the Lead Plaintiffs, Ontario Teachers' Pension Plan Board and the Department of the Treasury of the State of New Jersey and its Division of Investment each for an amount not to exceed \$30,000, for reimbursement of their reasonable costs and expenses (including lost wages) directly relating to their representation of the U.S. Global Class.

### **OBJECTING TO THE SETTLEMENT, PLAN OF ALLOCATION AND APPLICATIONS FOR ATTORNEYS' FEES AND REIMBURSEMENT OF LITIGATION EXPENSES**

If you are a Class Member, you can tell the Courts that you do not agree with the Settlement, or some part of it, the proposed Plan of Allocation, and/or any of the applications for attorneys' fees and reimbursement of litigation expenses.

18. How do I tell the Courts that I do not like the Settlement, the proposed Plan of Allocation, and/or the applications for attorneys' fees and reimbursement of litigation expenses?

Any Class Member, no matter where he, she or it resides, can object to the Settlement, or any of its terms, to the proposed Plan of Allocation, and/or to any of the applications by plaintiffs' counsel for awards of fees and expenses. You may write to the Claims Administrator setting out your objection. You may give reasons why you think the Settlement terms or arrangements, the proposed Plan of Allocation, and/or any of the applications for attorneys' fees or expenses, should not be approved by the Courts addressing those matters. The Claims Administrator will provide copies of your objections to each of the Courts and to counsel for all the parties. The Courts will consider your views if you provide your objection to the Claims Administrator within the deadline identified and you are a member of the class certified by the court. However, it is in the discretion of each of the Courts whether to consider the objections filed by members of the other classes not certified by that Court.

Although it is up to each Court whether to hear the oral objections of persons who are members of other classes not certified by that Court, if you are a member of one or more of the classes described herein, and you wish to present your views in person or through a lawyer to a particular Court, you should follow the procedures for submitting objections set forth in this response, and in the response to question 22 below.

To object to the Settlement, the proposed Plan of Allocation, and/or any of the applications for attorneys' fees and expenses in these Nortel II Actions, you should send a signed letter stating that you object to the Settlement, the proposed Plan of Allocation, and/or the applications by one or more of plaintiffs' counsel for awards of attorneys' fees and expenses in the *In re Nortel II Securities Litigation*. Be sure to include your name, address, telephone number, and your signature, identify the date(s), price(s), and number(s) of shares of all purchases and sales of Nortel common stock and/or Nortel common stock options you made during the period April 24, 2003 through April 27, 2004, inclusive, and state the reasons why you object to the Settlement, the proposed Plan of Allocation, and/or any or all of the applications by plaintiffs' counsel for awards of attorneys' fees and expenses. Your objection must be must be mailed to the Claims Administrator at the following address, on or before **September 19, 2006**:

Nortel II Securities Litigation Objections  
c/o The Garden City Group, Inc.  
Claims Administrator  
P O. Box 9085  
Dublin, OH 43017-0985

You do not need to go to any of the Settlement Fairness Hearings to have your written objection considered by the appropriate Court(s). At the Settlement Fairness Hearings, any Class Member who has not previously submitted a request for exclusion from the Class and who has complied with the procedures set out in this response and the response to question 22 below for filing with the Court(s) and providing to the counsel for plaintiffs and defendants a statement of an intention to appear at the Settlement Fairness Hearing(s) may also appear and be heard, to the extent allowed by the applicable Court(s), to state any objection to the Settlement, the Plan of Allocation or plaintiffs' counsel's motions for awards of legal fees and reimbursement of expenses. Any such objector so appearing may appear in person or arrange, at that objector's expense, for a lawyer to represent the objector at the Hearing(s).

Any Class Member who does not object to the Settlement, the Plan of Allocation, and/or any application for an award of attorneys' fees and reimbursement of litigation expenses in the manner prescribed above shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, adequacy or reasonableness of the proposed Settlement, the Order and Final Judgment to be entered approving the Settlement, the Plan of Allocation or the applications for awards of attorneys' fees and reimbursement of expenses.

19. What is the difference between objecting and excluding?

Objecting is simply telling the Court that you do not like something about the proposed Settlement. You can object only if you stay in the Class. Excluding yourself is telling the Court that you do not want to be part of the Class. If you exclude yourself, you have no basis to object because the case no longer affects you.

**THE SETTLEMENT FAIRNESS HEARINGS**

The Courts will hold hearings to decide whether to approve the proposed Settlement. You may attend and you may ask to speak, but you do not have to.

20. When and where will the Courts decide whether to approve the proposed Settlement?

The Courts will hold Settlement Fairness/Approval Hearings as follows:

- in the U.S. Action: at 1:00 p.m. on the 26<sup>th</sup> day of October, 2006, at the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, Courtroom 12A, 500 Pearl Street, New York, NY.
- in the Ontario National Action: at 10:00 a.m. on the 6<sup>th</sup> day of November, 2006, at the Ontario Superior Court of Justice, 361 University Avenue, Toronto, Ontario.
- in the Quebec Action: at 9:30 a.m. on the 16<sup>th</sup> day of November, 2006, at the Superior Court of Quebec, District of Montreal, 1 Notre-Dame East, Montreal, Quebec.

At these hearings, each Court will consider whether the Settlement is fair and reasonable and satisfies the legal requirements in each jurisdiction. At the Settlement Fairness Hearings, each Court also will consider the proposed Plan of Allocation for the proceeds of the Settlement. In addition, the U.S. Court will consider the fee and expense application by plaintiffs' counsel in the U.S. Action, and the respective Canadian Courts will consider the fee and expense applications by plaintiffs' counsel in the Canadian Actions. The Courts will take into consideration any written objections filed in accordance with the instructions shown at question 18. The Courts also may listen to people who have properly indicated, within the deadline identified above, an intention to speak at the hearing(s); however, decisions regarding the conduct of the hearing(s) will be made by the appropriate Court. See response to question 22 for more information about speaking at the hearing(s). After each hearing, each Court will decide whether to approve the Settlement. If the Courts approve the Settlement, each Court may also decide how much to pay to plaintiffs' counsel appearing in the Nortel I or Nortel II Action before it. Only the U.S. Court will decide the amount of fees and expenses to be awarded to plaintiffs' counsel in the U.S. Action, and only the respective Canadian Courts will decide the amount of fees and expenses to be awarded to plaintiffs' counsel in the Canadian Actions. It is not known how long these decisions will take.

You should be aware that any of the Courts may change the date(s) and time(s) of the Settlement Fairness Hearings. Thus, if you want to come to any of the hearings, you should check with plaintiffs' counsel before coming, to be sure that the date(s) and/or time(s) have not changed.

21. Do I have to come to any of the Settlement Fairness Hearings?

No. Plaintiffs' counsel will answer questions any of the Courts may have. However, you are welcome to come at your own expense. If you send an objection, you do not have to come to Court to talk about it. As long as you filed your written objection on time, the Court(s) will consider it. You may also pay your own lawyer to attend, but it is not necessary. Class Members do not need to appear at any hearing or take any other action to indicate their approval.

22. May I speak at the Settlement Fairness Hearings?

If you object to the Settlement, the Plan of Allocation and/or the application(s) by any counsel for an award of attorneys' fees and expenses, you may ask the appropriate Court for permission to speak at the Settlement Fairness Hearing(s). To do so, you must include with your objection (see question 18 above) a statement stating that it is your "Notice of Intention to Appear" in the appropriate Nortel II Action. Persons who intend to object to the Settlement, the Plan of Allocation, and/or plaintiffs' counsel's applications for awards of legal fees and reimbursement of expenses and desire to present evidence at the Settlement Fairness Hearing(s) must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the Settlement Fairness Hearing(s). You may not be entitled to speak at the Settlement Fairness Hearing(s) if you excluded yourself from the Class, if you are not a member of the class in which the Court is holding the Settlement Fairness Hearing, or if you have not provided written notice of your intention to speak at the Settlement Fairness

Hearing(s) by the deadline identified and in accordance with the procedures described in response to question 18 and this response.

### IF YOU DO NOTHING

23. What happens if I do nothing at all?

If you do nothing, you will get no money or shares from this Settlement, and you will be precluded from starting a lawsuit, continuing with a lawsuit, or being part of any other lawsuit against Nortel and the other Released Parties about the Settled Claims, ever again. To share in the Net Settlement Fund you must submit a Proof of Claim form (see question 10). To start, continue or be a part of any other lawsuit against Nortel and the other Released Parties about the Settled Claims you must have properly excluded yourself from the Class in accordance with the procedures set forth in this Notice (see questions 13 - 15).

### GETTING MORE INFORMATION

24. Are there more details about the proposed Settlement?

This Notice summarizes the proposed Settlement. More details are set forth in a Stipulation and Agreement of Settlement dated June 20, 2006 (the "Stipulation"). You can get a copy of the Stipulation by writing to appropriate Class Counsel, as set forth in "Further Information," above, by visiting [www.nortelsecuritieslitigation.com](http://www.nortelsecuritieslitigation.com), or by contacting the Claims Administrator at:

Nortel II Securities Litigation Settlement  
c/o The Garden City Group, Inc.  
Claims Administrator  
P.O. Box 9082  
Dublin, OH 43017-0982  
1(866) 881-7495  
[www.nortelsecuritieslitigation.com](http://www.nortelsecuritieslitigation.com)

where you will find answers to common questions about the Settlement, a Proof of Claim form, plus other information to help you determine whether you are a Class Member and whether you are eligible for a payment.

25. How do I get more information?

For even more detailed information concerning the matters involved in this Nortel II Action, reference is made to the pleadings, to the Stipulation and Agreement of Settlement (Nortel II), to the Orders entered by the respective Courts and to the other papers filed in the Nortel II Actions, which may be inspected, during regular business hours, as follows:

- In the U.S. Action: at the Office of the Clerk, United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, New York, NY.
- In the Ontario National Action: at the Civil Court Office, Ontario Superior Court of Justice, 393 University Avenue, 10<sup>th</sup> Floor, Toronto, Ontario.
- In the Quebec Action: at the Office of the Special Clerk, Superior Court of Quebec, 1 Notre-Dame East, Montreal, Quebec.

### PLAN OF ALLOCATION OF SETTLEMENT PROCEEDS AMONG CLASS MEMBERS

The \$370,157,418 Cash Settlement Amount plus any Contingent Recovery, and the interest earned thereon, and the 314,333,875 Settlement Shares of Nortel common stock shall be the Gross Settlement Fund. The Gross Settlement Fund, less all taxes, approved costs, fees and expenses (the "Net Settlement Fund") shall be distributed to members of the Class who submit acceptable Proofs of Claim ("Authorized Claimants").

The Claims Administrator shall determine each Authorized Claimant's *pro rata* share of the cash and Settlement Shares in the Net Settlement Fund based upon each Authorized Claimant's "Recognized Claim." The Recognized Claim formula is not intended to be an estimate of the amount of what a Class Member might have been able to recover after a trial; nor is it an estimate of the amount that will be paid to Authorized Claimants pursuant to the Settlement. The Recognized Claim formula is the basis upon which the Net Settlement Fund will be proportionately allocated to the Authorized Claimants.

The proposed Plan of Allocation generally measures the amount of loss that a Class Member can claim under the Settlement for the purpose of making pro-rata allocations of the cash and Settlement Shares in the Net Settlement Fund to Class Members

who submit acceptable Proofs of Claim. The following proposed Plan of Allocation reflects plaintiffs' allegations that the price of Nortel common stock was inflated artificially during the Class Period due to misrepresentations regarding Nortel's revenue and earnings. On March 10, 2004, after the market close, Nortel issued a press release announcing that it was delaying the filing of its 2003 Form 10-K and might restate its results for 2003. On March 15, 2004, before the market opened, Nortel announced that it had placed its CFO and controller on paid leave, and replaced them with interim appointments, effective immediately. On April 28, 2004, before the market opened, Nortel announced that it would restate and revise 2003 and prior-year financial results, and would delay the release of its first-quarter results. It further stated that it expected reductions of about 50% of 2003 earnings and that its CFO and controller, who had been appointed on a temporary basis, had been made permanent, and the former CFO and controller "have been terminated for cause." The reaction to each of these announcements in the marketplace was swift. Nortel's stock price declined from its \$6.88 closing price on March 10, 2004 on the New York Stock Exchange to a closing price of \$6.37 per share on March 11, 2004 – a decline of 7%. Nortel's stock again declined from a closing price of \$6.43 on March 12, 2004 to a closing price of \$5.24 on March 15, 2004 – a decline of 19%. Another decline accompanied Nortel's third disclosure, with Nortel's stock plunging 28% from a closing price of \$5.64 on April 27, 2004 to a closing price of \$4.05 on April 28, 2004. Plaintiffs estimated that a total of approximately \$2.90 per share, or 42%, of the \$6.88 closing price on March 10, 2004 represented the artificial inflation caused by the Defendants' alleged misrepresentations. (Note: Nortel's common stock price did not bounce back above a \$4.05 average price in the 90-day period following the end of the Class Period; accordingly, no reduction of the claimed damages is required under the (United States) Private Securities Litigation Reform Act.)

An Authorized Claimant's "Recognized Claim" will be calculated for purposes of the Settlement as follows:

**To the extent a claimant had a gain from his, her or its overall transactions in Nortel common stock and/or Nortel put and call options during the Class Period, the value of the Recognized Claim will be zero. Such claimants will in any event be bound by the Settlement. You may wish to consider this when deciding to opt out.**

#### Common Stock Purchases

1. For shares of Nortel common stock purchased between April 24, 2003 and March 10, 2004, inclusive, and:
  - a. sold at a loss prior to March 11, 2004, the Recognized Claim is the lesser of (x) \$0.29 per share, which is 10%<sup>2</sup> of the inflation at the time of purchase (\$2.90 per share), or (y) 10% of the difference between the purchase price and the sales price.
  - b. sold at a loss between March 11, 2004 and March 12, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus the sales price; or (ii) \$0.44 per share.
  - c. sold at a loss between March 15, 2004 and April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus the sales price; or (ii) \$1.48 per share.
  - d. held as of the close of business on April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus \$4.05; or (ii) \$2.90 per share.
2. For shares of Nortel common stock purchased between March 11, 2004 and March 12, 2004, inclusive, and:
  - a. sold at a loss prior to March 15, 2004, the Recognized Claim is the lesser of (x) \$0.25, which is 10%<sup>3</sup> of the inflation at the time of purchase (\$2.46 per share), and (y) 10% of the difference between the purchase price and the sales price.
  - b. sold at a loss between March 15, 2004 and April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus the sales price; or (ii) \$1.04 per share.
  - c. held as of the close of business on April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus \$4.05; or (ii) \$2.46 per share.

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<sup>2</sup> Class members who sold Nortel common stock at a loss prior to the close of trading on March 10, 2004 before the disclosures made on March 11, 2004 would face a potential defense that their loss was not related to the alleged misrepresentations because the same alleged misrepresentations affected both their purchase and their sale. The discount to 10% reflects this greater difficulty

<sup>3</sup> Class members who purchased Nortel common stock on March 11 and 12, 2004 and who sold those shares of Nortel common stock at a loss prior to the close of trading on March 12, 2004 (before the disclosures made on March 15, 2004) would face a potential defense that their loss was not related to the alleged misrepresentations because the same alleged misrepresentations affected both their purchase and their sale. The discount to 10% reflects this greater difficulty

3. For shares of Nortel common stock purchased between March 15, 2004 and April 27, 2004, inclusive, and:
  - a. sold at a loss between March 15, 2004 and April 27, 2004, the Recognized Claim is the lesser of (x) \$0.14, which is 10%<sup>4</sup> of the inflation at the time of purchase (\$1.42 per share), or (y) 10% of the difference between the purchase price and the sales price.
  - b. held as of the close of business on April 27, 2004, the Recognized Claim is the lesser of: (i) the purchase price minus \$4.05; or \$1.42 per share.

#### **Put and Call Options**

The total recovery payable to Authorized Claimants from transactions in call or put options shall not exceed five percent (5%) of the Net Settlement Fund.

#### **Call Option Purchases**

1. For call options purchased between April 24, 2003 and March 10, 2004:
  - a. No claim will be recognized for any Nortel call options purchased between April 24, 2003 and March 10, 2004 that were not owned as of the close of trading on March 10, 2004.
  - b. For call options purchased between April 24, 2003 and March 10, 2004 and owned as of the close of trading on March 10, 2004, an Authorized Claimant's Recognized Claim shall be the lesser of (a) 50%<sup>5</sup> of the difference, if a loss, between (x) the amount paid for the call options (including brokerage commissions and transaction charges) and (y) the sum for which said call options were subsequently sold at a loss (after brokerage commissions and transaction charges (or \$0.00 if the call option expired while still owned by the Authorized Claimant), or (b) \$1.45 per share covered by such call options (*i.e.*, 50% of the \$2.90 maximum per common share claim for this loss).
  - c. No loss shall be recognized based on a sale or writing of any call option that was subsequently repurchased.
  - d. Shares of Nortel acquired during the Class Period through the exercise of a call option shall be treated as a purchase on the date of exercise for the exercise price plus the cost of the call option, and any Recognized Claim arising from such transaction shall be computed as provided for other purchases of common stock.
2. For call options purchased between March 11, 2004 and March 12, 2004:
  - a. No claim will be recognized for any Nortel call options purchased between March 11, 2004 and March 12, 2004 that were not owned as of the close of trading on March 12, 2004.
  - b. For Nortel call options purchased between March 11, 2004 and March 12, 2004 and owned as of the close of trading on March 12, 2004, an Authorized Claimant's Recognized Claim shall be the lesser of (a) 50%<sup>6</sup> of the difference, if a loss, between (x) the amount paid for the call options (including brokerage commissions and transaction charges) and (y) the sum for which said call options were subsequently sold at a loss (after brokerage commissions and transaction charges (or \$0.00 if the call option expired while still owned by the Authorized Claimant), or (b) \$1.23 per share covered by such call options (*i.e.*, 50% of the \$2.46 maximum per common share claim for this loss).
  - c. No loss shall be recognized based on a sale or writing of any call option that was subsequently repurchased.
  - d. Shares of Nortel acquired during the Class Period through the exercise of a call option shall be treated as a purchase on the date of exercise for the exercise price plus the cost of the call option, and any Recognized Claim arising from such transaction shall be computed as provided for other purchases of common stock.

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<sup>4</sup> Class members who purchased Nortel common stock between March 15, 2004 and April 27, 2004 and who sold those shares of Nortel common stock at a loss prior to the close of trading on April 27, 2004 (before the disclosures made on April 27, 2004) would face a potential defense that their loss was not related to the alleged misrepresentations because the same alleged misrepresentations affected both their purchase and their sale. The discount to 10% reflects this greater difficulty.

<sup>5</sup> This discount reflects the fact that a purchase of a call option includes the payment of a time premium

<sup>6</sup> This discount reflects the fact that a purchase of a call option includes the payment of a time premium

3. For call options purchased between March 15, 2004 and April 27, 2004:

- a. No claim will be recognized for any Nortel call options purchased between March 15, 2004 and April 27, 2004 that were not owned as of the close of trading on April 27, 2004.
- b. For Nortel call options purchased between March 15, 2004 and April 27, 2004 and owned as of the close of trading on April 27, 2004, an Authorized Claimant's Recognized Claim shall be the lesser of (a) 50%<sup>7</sup> of the difference, if a loss, between (x) the amount paid for the call options (including brokerage commissions and transaction charges) and (y) the sum for which said call options were subsequently sold at a loss (after brokerage commissions and transaction charges (or \$0.00 if the call option expired while still owned by the Authorized Claimant), or (b) \$0.71 per share covered by such call options (i.e., 50% of the \$1.42 maximum per common share claim for this loss).
- c. No loss shall be recognized based on a sale or writing of any call option that was subsequently repurchased.
- d. Shares of Nortel acquired during the Class Period through the exercise of a call option shall be treated as a purchase on the date of exercise for the exercise price plus the cost of the call option, and any Recognized Claim arising from such transaction shall be computed as provided for other purchases of common stock.

**Put Option Sales**

For Nortel put options sold (written) during the Class Period that expired unexercised, an Authorized Claimant's Recognized Claim shall be \$0.00.

1. For put options sold (written) between April 24, 2003 and March 10, 2004:

- a. No claim will be recognized for Nortel put options sold (written) between April 24, 2003 and March 10, 2004 which were not the obligation of the Authorized Claimant as of the close of trading on March 10, 2004.
- b. For Nortel put options sold (written) between April 24, 2003 and March 10, 2004 that were the obligation of the Authorized Claimant at the close of trading on March 10, 2004, an Authorized Claimant's Recognized Claim shall be the lesser of (a) the difference, if a loss, between (x) the amount received for writing the put option (net of brokerage commissions and transaction charges) and (y) the sum for which said put options were repurchased at a loss after the close of trading on March 10, 2004 (including brokerage commissions and transaction charges) or (b) \$2.90 per share covered by such put options.
- c. For Nortel put options written between April 24, 2003 and March 10, 2004 that were "put" to the Authorized Claimant (i.e., exercised), the Authorized Claimant's Recognized Claim shall be calculated as a purchase of common stock as shown above, and as if the sale of the put option were instead a purchase of Nortel common stock on the date of the sale of the put option, and the "purchase price paid" shall be the strike price less the proceeds received on the sale of the put option.
- d. No loss shall be recognized based on a sale of any put option that was previously purchased.

2. For put options sold (written) between March 11, 2004 and March 12, 2004:

- a. No claim will be recognized for any Nortel put options sold (written) between March 11, 2004 and March 12, 2004 that were not the obligation of the claimant as of the close of trading on March 12, 2004.
- b. For Nortel put options sold (written) between March 11, 2004 and March 12, 2004 that were the obligation of the Authorized Claimant at the close of trading on March 12, 2004, an Authorized Claimant's Recognized Claim shall be the lesser of (a) the difference, if a loss, between (x) the amount received for writing the put option (net of brokerage commissions and transaction charges) and (y) the sum for which said put option was repurchased at a loss after the

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<sup>7</sup> This discount reflects the fact that a purchase of a call option includes the payment of a time premium

close of trading on March 12, 2004 (including brokerage commissions and transaction charges) or (b) \$2.46 per share covered by such put option.

- c. For Nortel put options written between April 24, 2003 and March 10, 2004 that were "put" to the Authorized Claimant (*i.e.*, exercised), the Authorized Claimant's Recognized Claim shall be calculated as a purchase of common stock as shown above, and as if the sale of the put option were instead a purchase of Nortel common stock on the date of the sale of the put option, and the "purchase price paid" shall be the strike price less the proceeds received on the sale of the put option.
- d. No loss shall be recognized based on a sale of any put option that was previously purchased.

3. For put options sold (written) between March 15, 2004 and April 27, 2004:

- a. No claim will be recognized for any Nortel put option sold (written) between March 15, 2004 and April 27, 2004 that was not the obligation of the claimant as of the close of trading on April 27, 2004.
- b. For Nortel put options sold (written) between March 15, 2004 and April 27, 2004 that were the obligation of the Authorized Claimant at the close of trading on April 27, 2004, an Authorized Claimant's Recognized Claim shall be the lesser of (a) the difference, if a loss, between (x) the amount received for writing the put option (net of brokerage commissions and transaction charges) and (y) the sum for which said put options were repurchased at a loss after the close of trading on April 27, 2004 (including brokerage commissions and transaction charges) or (b) \$1.42 per share covered by such put options.
- c. For Nortel put options written between March 15, 2004 and April 27, 2004 that were "put" to the Authorized Claimant (*i.e.*, exercised), the Authorized Claimant's Recognized Claim shall be calculated as a purchase of common stock as shown above, and as if the sale of the put option were instead a purchase of Nortel common stock on the date of the sale of the put option, and the "purchase price paid" shall be the strike price less the proceeds received on the sale of the put option.
- d. No loss shall be recognized based on a sale of any put option that was previously purchased.

In the event a Class Member has more than one purchase or sale of Nortel common stock and/or Nortel common stock options, all purchases and sales shall be matched on a First In First Out ("FIFO") basis, Class Period sales will be matched first against any Nortel shares and/or options held at the beginning of the Class Period, and then against purchases in chronological order, beginning with the earliest purchase made during the Class Period. Purchases and sales of Nortel common stock and options shall be deemed to have occurred on the "contract" or "trade" date as opposed to the "settlement" or "payment" date. The receipt or grant by gift, devise or operation of law of Nortel common stock and/or options during the Class Period shall not be deemed a purchase or sale of these Nortel securities for the calculation of an Authorized Claimant's Recognized Claim nor shall it be deemed an assignment of any claim relating to the purchase of such Nortel securities unless specifically provided in the instrument of gift or assignment. The receipt of Nortel common stock during the Class Period in exchange for securities of any other corporation or entity shall not be deemed a purchase or sale of Nortel common stock.

Each Authorized Claimant shall be allocated *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim as compared to the total Recognized Claims of all Authorized Claimants. Each Authorized Claimant shall be paid an amount determined by multiplying the total cash or Settlement Shares, respectively, in the Net Settlement Fund, by a fraction the numerator of which shall be his, her or its "Recognized Claim" and the denominator of which shall be the Total Recognized Claims of all Authorized Claimants. This computation weighs each Class Member's claim against every other Class Member's claim. Each Authorized Claimant will receive *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim.

The amount of a Class Member's Recognized Claim as computed above is not intended to be an estimate of what a Class Member might have been able to recover at trial, and it is not an estimate of the amount that will be paid pursuant to this Settlement. Instead, this computation is only a method to weight Class Members' claims against one another. Each Authorized Claimant will receive *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim.

To the extent a Claimant had a gain from his, her or its overall transactions in Nortel common stock and/or Nortel put and call options during the Class Period, the value of the Recognized Claim will be zero. Such claimants will in any event be bound by the Settlement. To the extent that a Claimant suffered an overall loss on his, her or its overall transactions in Nortel common stock and/or options during the Class Period, but that loss was less than the Recognized Claim calculated above, then the Recognized Claim shall be limited to the amount of the actual loss.

For purposes of determining whether a Claimant had a gain from his, her or its overall transactions in Nortel common stock during the Class Period or suffered a loss, the Claims Administrator shall: (i) total the amount the Claimant paid for all Nortel common stock and Nortel options purchased during the Class Period, and the cost or amount paid to repurchase or close after the Class Period any Nortel put options written by the Claimant during the Class Period that were open obligations of the Claimant at the end of the Class Period (the "Total Purchase Amount"); (ii) match any sales of Nortel common stock or options during the Class Period first against the Claimant's opening position in the stock (the proceeds of those sales will not be considered for purposes of calculating gains or losses); (iii) total the amount received for sales of the remaining shares of Nortel common stock and any options sold during the Class Period (the "Sales Proceeds"); and (iv) ascribe a \$4.05 per share holding value for the number of shares of Nortel common stock purchased during the Class Period and still held at the end of the Class Period and add the value at the end of Class period of any call options still held by the Claimant at the end of the Class Period ("Holding Value"). The difference between (x) the Total Purchase Amount ((i) above) and (y) the sum of the Sales Proceeds ((iii) above) and the Holding Value ((iv) above) will be deemed a Claimant's gain or loss on his, her or its overall transactions in Nortel common stock during the Class Period.

Class Members who do not submit acceptable Proofs of Claim will not share in the settlement proceeds. Class Members who do not either submit a request for exclusion or submit an acceptable Proof of Claim will nevertheless be bound by the Settlement and the Judgment of the Court dismissing the Nortel II Actions.

Distributions will be made to Authorized Claimants after all claims have been processed and after the Courts have finally approved the Settlement. If any funds remain in the Net Settlement Fund by reason of un-cashed distributions or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distributions, any balance remaining in the Net Settlement Fund one (1) year after the initial distribution of such funds shall be re-distributed to Class Members who have cashed their initial distributions and who would receive at least \$10.00 from such re-distribution, after payment of any unpaid costs or fees incurred in administering the Net Settlement Fund for such re-distribution. If after six months after such re-distribution any funds shall remain in the Net Settlement Fund, then such balance shall be contributed proportionally to United States and Canadian non-sectarian, not-for-profit organizations designated by plaintiffs' counsel (and in the case of any relevant settlement shares, by transfer of such shares to such organization) after notice to the Courts and subject to direction, if any, by the Courts.

Plaintiffs, defendants, their respective counsel, and all other Released Parties shall have no responsibility for or liability whatsoever for the investment or distribution of the Settlement Fund, the Net Settlement Fund, the Plan of Allocation or the determination, administration, calculation, or payment of any Proof of Claim or non-performance of the Claims Administrator, the payment or withholding of taxes owed by the Settlement Fund, or any losses incurred in connection therewith.

Any payment required to be made to the *Fonds d'aide aux recours collectifs* of Quebec shall be paid by the Claims Administrator from the funds allocable to such members of the Quebec Class.

#### **SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES**

If you purchased Nortel common stock or call options on Nortel common stock, or wrote (sold) put options on Nortel common stock, during the period between April 24, 2003 through April 27, 2004, inclusive for the beneficial interest of a person or organization other than yourself, the United States District Court has directed that, WITHIN SEVEN (7) DAYS OF YOUR RECEIPT OF THIS NOTICE, you either (a) provide to the Claims Administrator the name and last known address of each person or organization for whom or which you purchased or sold such stock and/or options during such time period or (b) request additional copies of this Notice and the Proof of Claim form, which will be provided to you free of charge, and within seven (7) days mail the Notice and Proof of Claim form directly to the beneficial owners of such stock and/or options. If you choose to follow alternative procedure (b), the Court has directed that, upon such mailing, you send a statement to the Claims Administrator confirming that the mailing was made as directed. You are entitled to reimbursement from the Gross Settlement Fund of your reasonable expenses actually incurred in connection with the foregoing, including reimbursement of postage expense and the cost of ascertaining the names and addresses of beneficial owners. Those expenses will be paid upon request and submission of appropriate supporting documentation. All communications concerning the foregoing should be addressed to the Claims Administrator:

Nortel II Securities Litigation Settlement  
c/o The Garden City Group, Inc.  
Claims Administrator  
P.O. Box 9082  
Dublin, OH 43017-0982  
1(866) 881-7495

Dated: July 21, 2006

By Orders of the Courts

## APPENDIX "A"

### Nortel: CORPORATE GOVERNANCE PROVISIONS

#### Corporate Governance Enhancements

A. The following are the corporate governance enhancements that Nortel Networks Corporation ("Nortel") has agreed to implement:

1) Nortel will amend its Statement of Governance Guidelines (the "Governance Statement") to explicitly provide that the non-executive Chair (the "Chair") of Nortel's Board of Directors (the "Board") shall have adequate support staff to carry out the Chair's responsibilities.

2) Nortel will amend its Governance Statement and the mandates of the Board and the Board committees to explicitly provide for in camera or executive sessions at every Board and Board committee meeting, whether such meetings are conducted in-person or telephonically

3) The Board will adopt a formal policy in 2006 to provide guidance to directors on the number of outside public boards on which a director may serve. The Board may take into account various factors in making its determination, including number of meetings and work plan of additional boards, committee memberships, industry and geographic location.

4) Nortel will amend the fourth page, first non-indented paragraph, first sentence of the current mandate of Nortel's Compensation and Human Resources Committee (formerly the Joint Leadership Resources Committee, the "CHRC") to read:

Subject as hereinafter provided, the committee shall have sole authority over the engagement of compensation consultants, including over the terms and conditions of such engagements.

5) Nortel will disclose in its annual proxy circular and proxy statement the names of comparator companies used for purpose of pay setting and performance comparisons.

6) The CHRC will include the results of comparator companies in determining its compensation practices and philosophy in consultation with the independent compensation consultants to the CHRC.

7) The CHRC intends to establish its compensation structures and policies in line with best practices. The CHRC will consult with its independent compensation consultants regularly to review the current state of affairs on best practices in the various areas of executive and other employee compensation, including with respect to the relative balance between annual and long-term compensation.

8) The CHRC will not utilize pro forma or adjusted financial metrics to assess performance and pay incentives except in extraordinary circumstances, and in consultation with the independent compensation consultants to the CHRC and Nortel's Audit Committee.

9) The CHRC will disclose in Nortel's annual proxy circular and proxy statement pay for performance measures and the time period(s) used to assess management's performance, except that confidential or competitive information will not be disclosed.

10) The CHRC will require that all executives' employment agreements include a clawback provision that entitles the company to take back compensation, or declare compensation not owed, in the case of fraud.

11) Nortel will amend the mandate of the Board to formalize the Board's current practice of electing the Chair on an annual basis.

12) Nortel will require that all committees of the Board must meet at least once a year.

13) Any material deviation from Nortel's Governance Statement will be disclosed in the Report on Governance in the annual proxy circular and proxy statement.

B. The following are either current practices of Nortel or practices that Nortel was in the process of adopting at the time that negotiations with Lead Plaintiffs as to corporate governance enhancements began, and which Lead Plaintiffs have demanded be memorialized as part of this Settlement, and which Nortel has either implemented or has agreed to implement:

1) Commencing with 2006, Nortel will prepare a forward agenda for the Board, as well as each committee of the Board, at the beginning of each fiscal year. Each forward agenda will identify the decisions and actions to be presented to the Board or committee for the ensuing year as prescribed by the mandate of the Board or of the applicable committee.

2) Nortel currently conducts an annual assessment of the Board, its committees, individual directors and the Chair and reports those results to the Board. Nortel will describe this review process in its annual proxy circular and proxy statement.

3) Nortel's Nominating and Governance Committee (formerly the Committee on Directors, the "Committee") will adopt, each year, general procedures which the Committee will follow for the purpose of identifying Board candidates. These procedures will be sufficiently flexible to permit the Committee to respond to current circumstances as well as to the requirements of the Canada Business Corporations Act, the stock exchanges and applicable securities laws regarding the election and appointment of directors. These procedures will be adopted for candidate identification and the appointment of new directors to the Board.

4) Nortel is in the process of amending the Committee's mandate to explicitly identify that the Committee is responsible for director succession planning.

5) Nortel is in the process of formalizing and expanding its director orientation and education program.

6) The CHRC generally will not grant enhanced pension arrangements except in extraordinary circumstances and in consultation with its independent compensation consultants.

7) The CHRC agrees with the policy of not layering incentive plans on top of other incentive plans by reason of an unlikely payout under another existing plan.

C. Lead Plaintiffs are invited to address the chairman of Nortel's Board and the Committee no later than four months after the Effective Date with respect to certain additional governance proposals, who will in turn discuss those proposals with the Board. The Board will then consider those proposals in good faith and act accordingly.