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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE NORTEL NETWORKS CORP.
SECURITIES LITIGATION

This Document Relates To:

ALL ACTIONS

Master File No. 05 MD 1659 (LAP)

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**ORDER APPROVING INITIAL DISTRIBUTION OF
CLASS SETTLEMENT PROCEEDS**

WHEREAS, on December 26, 2006, following a duly-noticed fairness hearing in the above-captioned action (the "Action"), this Court entered an Order and Final Judgment approving the terms of the Stipulation and Agreement of Settlement (Nortel II) dated June 20, 2006 (the "Stipulation")¹ and the proposed plan of allocation (the "Plan of Allocation") in connection with the global settlement of the Action and certain related actions in the United States and Canada;

WHEREAS, the Order and Final Judgment has become Final and is no longer subject to appeal;

WHEREAS, the Stipulation provides that it is also subject to the approval of the Ontario Superior Court of Justice and the Superior Court of Québec;

WHEREAS, the Ontario Superior Court of Justice and the Superior Court of Québec each have entered Orders approving the Stipulation, which Orders have become Final and are no longer subject to appeal;

¹ Capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Stipulation.

WHEREAS, Québec Class Counsel are appealing certain determinations made by the Superior Court of Québec relating to a potential award of attorneys' fees and expenses to Québec Class Counsel and no attorneys fees or expenses have yet been awarded to Québec Class Counsel;

WHEREAS, the Stipulation provides that the Settlement is contingent upon the approval of a settlement stipulation in a separate consolidated class action proceeding captioned *In re Nortel Networks Corp. Securities Litigation*, Civil Action No. 01-CV-1855 (S.D.N.Y.) (RMB), and related Canadian actions in Ontario, Québec and British Columbia (the "Nortel I Actions");

WHEREAS, the settlement stipulation in the Nortel I Actions has been approved by the United States District Court for the Southern District of New York (Hon. Richard M. Berman) and by the appropriate courts in Ontario, Québec and British Columbia, and such approvals have become Final and no longer subject to appeal;

WHEREAS, paragraph 8 of the Stipulation provides, among other things "[s]uch amounts as are awarded to Plaintiffs' Counsel by the Courts from the Gross Settlement Shares shall be payable to Plaintiffs' Counsel at the first date on which the Effective Date has occurred and the award of attorneys' fees is Final," and accordingly, no Settlement Shares have been paid to Québec Class Counsel at this time as a result of their pending appeal;

WHEREAS, the Stipulation provides at paragraph 9 that "Lead Counsel and Canadian Class Counsel will apply respectively to the United States District Court for the Southern District of New York, and with respect to the claims of Canadian Class Members to the Canadian Courts . . . for an order (the "Class Distribution Order") approving the Claims Administrator's administrative determinations concerning the acceptance and rejection of the claims submitted herein, and approving any fees and expenses not previously applied for relating to the

administration of the Settlement, including the fees and expenses of the Claims Administrator, the reasonable costs and expenses of the physical delivery of the Gross Settlement Shares and any extraordinary or expedited services of the transfer agent with respect to such physical delivery, and, only if the Effective Date has occurred, directing payment of the Net Settlement Fund to Authorized Claimants”;

WHEREAS, the Stipulation provides at paragraph 16 that “the administrative determinations of the Claims Administrator accepting and rejecting claims shall be presented to the United States District Court for the Southern District of New York, and with respect to the claims of Canadian Class Members to the Canadian Courts . . . for approval in the Class Distribution Order”;

WHEREAS, the Stipulation provides at paragraph 20 that the Net Cash Settlement Fund and the Net Settlement Shares shall be distributed to Accepted Claimants “only after the Effective Date and after all Claims have been processed, and all claimants whose Claims have been rejected or disallowed, in whole or in part, have been notified and provided the opportunity to contest with the Claims Administrator such rejection or disallowance”;

WHEREAS, the Effective Date of the Stipulation has occurred and the Order and Final Judgment is Final;

WHEREAS, in accordance with paragraph 20 of the Stipulation, the Claims Administrator has processed all claims, and all claimants whose claims have been rejected or disallowed, in whole or in part, have been notified and provided the opportunity to contest with the Claims Administrator such rejection or disallowance;

WHEREAS, as set forth in the Affidavit of Stephen J. Cirami in Support of Motion for Initial Distribution of Class Settlement Proceeds, dated February 19, 2008 (the “Cirami

Affidavit”), the Claims Administrator, The Garden City Group, Inc. (“GCG”), has received and processed 174,568 Proofs of Claim, of which 86,503 have been approved for distribution to claimants (the “Accepted Claimants”), and of which 88,065 have been rejected (the “Rejected Claimants”);

WHEREAS, as set forth in the Cirami Affidavit, 1,777 of the Accepted Claimants filed claims that were received after the original November 20, 2006 submission deadline set by the Preliminary Order for Notice and Hearing in Connection with Settlement Proceedings, dated June 29, 2006, but prior to the completion of the claims processing by GCG. Lead Plaintiffs submit that when the equities are balanced, it would be unfair to prevent an otherwise valid claim from participating in the Net Settlement Fund solely because it was submitted after the cut-off date, when it was submitted while the claims were still being processed. Accordingly, Lead Plaintiffs propose that that all late, but otherwise eligible claims be approved for payment from the Net Settlement Fund, and in this regard, request that this Court vacate its Order dated January 31, 2007 (Dkt. No. 78) denying the request of claimant Andrew H. Dral to extend the deadline to participate in the Settlement, so that Mr. Dral’s claim will be treated in the same manner as all other late-filed claims;

WHEREAS, Lead Plaintiffs submit that there must be a final cut-off after which no more claims may be accepted, and propose that no claim submitted after December 5, 2007 be accepted for any reason whatsoever;

WHEREAS, as described in the Cirami Affidavit and listed in Exhibit B thereto, 378 claimants with wholly or partially Rejected Claims dispute the Claims Administrator’s administrative determination rejecting their Claims in whole or in part (the “Disputed Rejected Claims”) and, in accordance with paragraph 15(e) of the Stipulation, request judicial review of

the Claims Administrator's determination of their claims, which may require review by this Court, or, depending on the residence of the claimant, the review of the Ontario Superior Court of Justice or the Superior Court of Québec. Final resolution of such Disputed Rejected Claims will require additional time and further proceedings;

WHEREAS, Lead Plaintiffs submit that the final resolution of the Disputed Rejected Claims, and resolution of any open issues concerning the attorneys' fees and expenses awarded to Québec Class Counsel, should not delay the distribution of the Net Settlement Fund to the 86,503 Accepted Claimants. Accordingly, Lead Plaintiffs propose that all Net Settlement Shares, which are subject to market fluctuations and are limited to whole-share allocations, should be distributed at this stage to the Accepted Claimants in accordance with the Claims Administrator's determinations, and that any subsequent distributions the Court may order with respect to any Disputed Rejected Claims that may ultimately be accepted by the Courts, as well as any attorneys' fees and expenses awarded to Québec Class Counsel, should be made solely from the Net Cash Settlement Fund, and any portion of such subsequent claims, if any, that would otherwise be payable in Settlement Shares should be paid in an amount of cash equal to the value of such shares calculated using the volume-weighted average price of the common stock of Nortel Networks Corporation ("Nortel") as reported by the New York Stock Exchange for the period starting on the first trading day after Nortel's transfer agent commences physical delivery of Net Settlement Shares to Accepted Claimants and ending ten (10) trading days thereafter (the "Distribution Value");

WHEREAS, GCG is currently in the process of adjusting the claimant identification information for certain Accepted Claimants so that Nortel's transfer agent can issue Settlement Shares to such Accepted Claimants ("Claimant Identification Information"), and it is understood

that neither Nortel nor its transfer agent will be obligated to issue any Settlement Shares to those Accepted Claimants with respect to whom GCG has not supplied Claimant Identification Information to Nortel's transfer agent in reasonable conformity with Section 2 of the Guidelines of the Securities Transfer Association; and

WHEREAS, this Court has retained jurisdiction of this Action for the purpose of considering any further application or matter which may arise in connection with the administration and execution of the Settlement and the processing of Proofs of Claim and the distribution of the Net Settlement Fund to Accepted Claimants;

WHEREAS, every reasonable effort must be made to ensure there is no further delay of the distribution of Nortel Shares (and, where appropriate, cash) to Class Members;

NOW, THEREFORE, upon the Cirami Affidavit and the memorandum of law submitted on behalf of Lead Plaintiffs, subject to the issuance of concurring orders by each of the applicable Canadian Courts with respect to Canadian Class Members, and upon all prior proceedings herein and after due deliberation, it is hereby

ORDERED, that the administrative determinations of the Claims Administrator accepting the claims of the Accepted Claimants, as set forth in Exhibit C to, and described in, the Cirami Affidavit (including 1,777 Proofs of Claim submitted after November 20, 2006, and received through and including December 5, 2007), be, and the same hereby are, approved in the amounts specified in each "Recognized Claim";

ORDERED, that, in light of the acceptance of Proofs of Claims filed through December 5, 2007, the Court's prior Order dated January 31, 2007 (Dkt. No.78) is hereby vacated;

ORDERED, that all the Net Settlement Shares and 90% of the remaining Net Cash Settlement Fund shall be distributed to the Accepted Claimants in accordance with the

administrative determinations of the Claims Administrator with respect to each Accepted Claimant, and that after such distribution any subsequent distributions from the Net Settlement Fund that would otherwise have been payable in Settlement Shares shall be payable solely from the cash remaining in the Net Cash Settlement Fund, and the value to be paid instead of any shares that would otherwise be payable on such subsequent distribution shall be the Distribution Value;²

ORDERED, that 10% of the Net Cash Settlement Fund shall be held in reserve for future distributions (e.g., Disputed Claims) and/or payment of fees and/or expenses as may hereafter be approved by the Court;

ORDERED, that 8.0% of the Gross Settlement Shares awarded as legal fees to Lead Plaintiff's Counsel in this Court's Order and Final Judgment, dated January 29, 2007, shall be distributed to Lead Plaintiff's Counsel contemporaneously with the distributions to the Accepted Claimants;

ORDERED, that, following distribution of the Settlement Shares to Accepted Claimants as ordered herein, and with respect to Accepted Claimants who are members of the Canadian Class as ordered by the Canadian Courts, neither Nortel nor its transfer agent shall be obligated to issue or distribute any of the Settlement Shares, or any other shares of common stock of Nortel, to any Class Member, including, but not limited to, to any Class Member whose Disputed Rejected Claim may ultimately be approved by the Court;

² With respect to any Disputed Rejected Claims that may subsequently be ruled by the Court to be eligible, in the event that the price of Nortel stock increases after the distribution of Settlement Shares, the amount of cash to be paid in lieu of Settlement Shares shall be measured as the value of such shares calculated using the volume-weighted average price of Nortel common stock as reported by the New York Stock Exchange for the period starting on the first trading day after the date a Court issues an order approving the payment of such claim and ending ten (10) trading days thereafter.

ORDERED, that as set forth in the list of Accepted Claimants submitted as Exhibit C to the Cirami Affidavit, only whole numbers of Settlement Shares shall be distributed to the Accepted Claimants, rounded up or down so as to allocate all the available Settlement Shares, and no adjustments shall be made for fractional interests not resulting in a share allocation;

ORDERED, that cash distributions that are addressed to Canadian addresses, including cash distributions, if any, to claimants whose Disputed Rejected Claims are subsequently approved by the Court, shall be issued in Canadian dollars, and all other cash distributions will be issued in U.S. dollars, and GCG is authorized to convert sufficient U.S. dollars in the Net Cash Settlement Fund to Canadian dollars to make the Canadian dollar payments, and the cash distributions made to Canadian addresses shall be based upon the exchange rate received by GCG upon the conversion;

ORDERED, that, as promptly as possible using every commercially reasonable effort, following receipt of written instructions from Lead Counsel as provided in paragraph 4(d) of the Stipulation, Nortel (or its transfer agent) shall issue and deliver a total of 28,864,376 (post-consolidation) Settlement Shares to Accepted Claimants in such names and at such addresses as identified in the Claimant Identification Information provided by GCG, and in such amounts for each Accepted Claimant as set forth in the written instructions received from Lead Counsel pursuant to paragraph 4(d) of the Stipulation, which instructions shall correspond to Exhibit C to the Cirami Affidavit and the Claimant Identification Information provided by GCG, provided, however, that neither Nortel nor its transfer agent shall be obligated to issue Settlement Shares to any Accepted Claimant with respect to whom GCG has not provided Claimant Identification Information in reasonable conformity with Section 2 of the Guidelines of the Securities Transfer Association, and provided further that to the extent that GCG subsequently provides Claimant

Identification Information in reasonable conformity with Section 2 of the Guidelines of the Securities Transfer Association to Nortel and its transfer agent, then Nortel or its transfer agent shall issue and deliver the appropriate number of Settlement Shares to the affected Accepted Claimant(s) promptly following receipt of such conforming Claimant Identification Information, and provided further that in the event that GCG, after using reasonable efforts, is unable to obtain such conforming Claimant Identification Information with respect to any Accepted Claimants, the parties shall seek further guidance from the appropriate court;

ORDERED, that neither Nortel nor its transfer agent shall be liable for any claim arising from or relating to the accuracy or adequacy of the information provided to Nortel and its transfer agent by GCG and Lead Counsel, including, but not limited to, (i) the Settlement Share allocation for each Accepted Claimant as set forth in Exhibit C to the Cirami Affidavit and in the written instructions provided to Nortel by Lead Counsel pursuant to paragraph 4(d) of the Stipulation, and (ii) the Claimant Identification Information provided to Nortel and its transfer agent by GCG, including the name and address of each Accepted Claimant.

ORDERED, that, as provided in the Stipulation at paragraph 4(d), the reasonable costs and expenses of physical delivery of the Settlement Shares to Accepted Claimants and to Plaintiffs' Counsel, including Settlement Shares previously distributed to Plaintiffs' Counsel, and extraordinary or expedited services, if any, of Nortel's transfer agent, shall be paid out of the Gross Cash Settlement Fund to Nortel or its transfer agent upon presentation of an appropriate invoice for same to Lead Counsel;

ORDERED, that the Claims Administrator shall include a letter with the cash distributions it sends to each Accepted Claimant stating, among other things, the calculated amount of the Accepted Claimant's particular Recognized Claim, and stating the number of

Settlement Shares, if any, the Accepted Claimant should separately receive from Nortel (or its transfer agent), including the name that will appear on such Settlement Shares and the address to which they will be sent, and advising each Accepted Claimant to notify the Claims Administrator within ninety days if the Accepted Claimant believes that the Accepted Claimant's Recognized Claim amount was incorrectly calculated, or if the Accepted Claimant disputes the amount of the distribution check or the number of Settlement Shares awarded, or if the name or address as indicated is incorrect, and that if the Accepted Claimant does not dispute the amount of the Accepted Claimant's calculated Recognized Claim, the number of Settlement Shares, or the name or address as indicated, within ninety days of receipt of the cash distribution, the Accepted Claimant shall be forever barred from disputing the Claims Administrator's calculation of the amount of the Accepted Claimant's claim and the accuracy of the name and address as indicated;

ORDERED, that the administrative determinations of the Claims Administrator rejecting the Rejected Claims set forth in Exhibit C to, and described in, the Cirami Affidavit (but excluding the Disputed Rejected Claims, which Disputed Rejected Claims shall be the subject of one or more subsequent orders) be, and the same hereby are, approved, and such Rejected Claims are hereby rejected and extinguished;

ORDERED, that GCG's fees and expenses in connection with the administration of the Settlement through November 30, 2007, and its estimated fees for the initial distribution of the Cash Settlement Fund and allocation of the Settlement Shares and estimated postage expenses for the initial distribution, are hereby approved, and the outstanding balance of such fees and expenses in the amount of \$732,913.82 shall be paid out of the Gross Cash Settlement Fund;

ORDERED, that to the extent that a Disputed Rejected Claim has been accepted in part and rejected in part by the Claims Administrator and the claimant is requesting this Court's

review of the disputed, rejected part of that claim, the undisputed, accepted part of the claim shall be approved and paid pursuant to this Order, with only the disputed, rejected part of the claim to be subject to further future payment if the disputed, rejected part of the claim is ultimately accepted by this Court (or the appropriate Canadian Court if so elected by a claimant resident in Canada) in orders to be entered in the future;

ORDERED, that Lead Plaintiff's Counsel and GCG forthwith shall make further reasonable efforts to finally resolve the Disputed Claims within 90 days of the date of this Order, shall notify these claimants (in boldface type) that shares and cash are being distributed in accordance with this Order and that, once such distributions have been completed, there may be insufficient funds remaining to resolve all of the Disputed Claims; and Lead Plaintiff's Counsel shall file a written report with the Court within 100 days of the date of this Order describing the results of such efforts and the status of all distributions described in this Order;

ORDERED, that after all claims and expenses have been paid in accordance with this Order, and after the resolution of all Disputed Claims, Lead Plaintiff's Counsel shall submit a motion, on notice to Nortel, providing a recommendation for the distribution (with preference to Class Members) of any remaining funds in the Net Cash Settlement Fund;

ORDERED, that except as authorized herein, no further payments shall be made, including, among others, payments to GCG or Lead Plaintiff's Counsel, until the distribution(s) to the Accepted Claimants substantially have been completed and upon motion and approval by this Court;

ORDERED, that the Claims Administrator is hereby authorized to discard paper or hard copies of the Proof of Claim forms and supporting documents not less than four years after the initial distribution of the Net Settlement Fund to the eligible claimants and electronic or magnetic


media data not less than five years after the initial distribution of the Net Settlement Fund to the eligible claimants;

ORDERED, that jurisdiction is retained by the Court to consider any further applications concerning the administration of the Settlement, including without limitation, the disposition of the Disputed Rejected Claims and any further administrative fees and expenses relating to the distribution of the Net Cash Settlement Fund; and it is further

ORDERED, that no Proof of Claim submitted by any Class Member after December 5, 2007 may be accepted for any reason whatsoever.

Dated: New York, New York
March 14, 2008

BY THE COURT


Loretta A. Preska
United States District Judge

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