

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

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

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

**THIRTY-SIXTH REPORT OF THE MONITOR
DATED FEBRUARY 8, 2010**

INTRODUCTION

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

2. Nortel Networks Inc. (“**NNI**”) and certain of its U.S. subsidiaries concurrently filed voluntary petitions under Chapter 11 of Title 11 of the U.S. Bankruptcy Code (the “**Code**”) in the United States Bankruptcy Court for the District of Delaware (the “**U.S. Court**”) on January 14, 2009 (the “**Chapter 11 Proceedings**”). As required by U.S. law, an official unsecured creditors committee (the “**Committee**”) was established in January, 2009.
3. An ad hoc group of holders of bonds issued by NNL, NNC and Nortel Networks Capital Corporation has been organized and is participating in these proceedings as well as the Chapter 11 Proceedings (the “**Bondholder Group**”). In addition, pursuant to Orders of this Honourable Court dated May 27, 2009, and July 22, 2009, representative counsel was appointed on behalf of the former employees of the Applicants and on behalf of the continuing employees of the Applicants, respectively, and each of these groups is participating in the CCAA proceedings (as described in further detail below).
4. Nortel Networks (CALA) Inc. (together with NNI and certain of its subsidiaries that filed on January 14, 2009, the “**U.S. Debtors**”) filed a voluntary petition under Chapter 11 of Title 11 of the Code in the U.S. Court on July 14, 2009.
5. Nortel Networks UK Limited (“**NNUK**”) and certain of its subsidiaries located in EMEA were granted Administration orders (the “**UK Administration Orders**”) by the High Court of England and Wales on January 14, 2009 (collectively the “**EMEA Debtors**”). The UK Administration Orders appointed Alan Bloom, Stephen Harris, Alan Hudson and Chris Hill of Ernst & Young LLP as Administrators of the various EMEA Debtors, except for Ireland, to which David Hughes (Ernst & Young LLP Ireland) and Alan

Bloom were appointed (collectively the “**Joint Administrators**”). On June 8, 2009, the Joint Administrators appointed in respect of NNUK filed a petition with the U.S. Court for the recognition of the Administration Proceedings as they relate to NNUK (the “**English Proceedings**”) under Chapter 15 of the Code. On June 26, 2009, the U.S. Court entered an order recognizing the English Proceedings as foreign main proceedings under Chapter 15 of the Code.

6. On January 20, 2009, Nortel Networks Israel (Sales and Marketing) Limited and Nortel Communications Holdings (1997) Limited (together “**NN Israel**”) were granted Administration orders by the court in Israel (the “**Israeli Administration Orders**”). The Israeli Administration Orders appointed representatives of Ernst & Young LLP in the UK and Israel as Administrators of NN Israel (the “**Joint Israeli Administrators**”) and provided a stay of NN Israel’s creditors which, subject to further order of the Israeli Court, remains in effect during the Administration.
7. Subsequent to the Filing Date, Nortel Networks SA commenced secondary insolvency proceedings within the meaning of Article 27 of the European Union’s Council Regulation (EC) No 1346/2000 on Insolvency Proceedings in the Republic of France pursuant to which a liquidator and an administrator have been appointed by the Versailles Commercial Court.

PURPOSE

8. The purpose of this Thirty-Sixth Report of the Monitor (“**Thirty-Sixth Report**”) is to provide this Honourable Court with information regarding the Applicants’ motion seeking an Order (the “**Notice Procedure Order**”) approving:

- a service and notice process in respect of a settlement reached among the Applicants, the Monitor, the Settlement Employee Representatives (on their own behalf and on behalf of the parties they represent), the Former Employees' Representative Counsel, LTD Beneficiaries' Representative Counsel and CAW (as subsequently defined) (collectively, the "**Settlement Parties**") for the benefit of the Applicants and all of their stakeholders regarding certain issues related to, among other things, the Applicants' pension plans, Health and Welfare Trust (the "**HWT**") and certain employment related issues (the "**Settlement**");
- the procedure for the filing of a notice of intent to appear and oppose the Settlement in a prescribed form; and
- the setting of a bar date to file such notice of intent to appear and oppose the Settlement

and to provide the Monitor's support thereof.

TERMS OF REFERENCE

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

10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
11. Capitalized terms not defined in this Thirty-Sixth Report are as defined in the Pre-Filing Report, previous Reports of the Monitor and the Notice Procedure Order.

GENERAL BACKGROUND

12. Nortel is a technology company that designs, develops and deploys communication products, systems, and solutions to its carrier and enterprise customers around the globe. Its principal assets include its people, the intellectual property derived and maintained from its research and development activities, its customers and other significant contracts and agreements.
13. Since September 30, 2009, Nortel has conducted its global business through four reportable business unit segments: Wireline and Wireless Networks, Metro Ethernet Networks, Carrier Voice Application Solutions, and LG Nortel Co. Ltd. (“LGN”). The revenue and assets of each of the business units, except for LGN, are distributed among the multiple Nortel legal entities and joint ventures around the world.
14. The Monitor has made various materials relating to the CCAA proceedings available on its website at www.ey.com/ca/nortel. The Monitor’s website also contains a dynamic link to Epiq Bankruptcy LLC’s website where materials relating to the voluntary proceedings under Chapter 11 of the Code are posted.

EMPLOYEE REPRESENTATIVES AND REPRESENTATIVE COUNSEL

15. As set out in the Monitor's Seventh Report dated April 16, 2009, the Monitor was of the view that the appointment of representative counsel for employees was appropriate due to: (a) the large number of former employees of the Applicants; (b) the combination of resources required in order for employee claims to be advanced; and (c) the efficiency of representative counsel to coordinate assistance for the large number of individuals involved.
16. Following a series of motions, this Honourable Court held that appointing representative counsel, along with employee representatives, was prudent to efficiently represent the interests of the large number of employees in various constituencies.
17. Accordingly, the following appointments were made by a series of Court Orders:
 - (a) the appointment on May 27, 2009 of Koskie Minsky LLP to act as representative counsel (the "**Former Employees' Representative Counsel**") to all former employees, including pensioners, of the Applicants or any person claiming an interest under or on behalf of such former employees or pensioners and surviving spouses in receipt of an Applicant pension, or group or class of them (collectively, the "**Former Employees**");
 - (b) the appointment on May 27, 2009 of Donald Sproule, David Archibald and Michael Campbell as representatives of the Former Employees (the "**Former Employees' Representatives**"), including for the purpose of settling or compromising claims by the Former Employees in the CCAA proceedings;

- (c) the appointment on July 30, 2009 of Koskie Minsky LLP as representative counsel (the “**LTD Beneficiaries’ Representative Counsel**”, together with the Former Employees’ Representative Counsel, “**Settlement Representative Counsel**”) to those employees of the Applicants who are currently not working due to an injury, illness or medical condition in respect of which they are receiving or entitled to receive disability income benefits by or through the Applicants, and who may assert an existing or future claim for payment, reimbursement or coverage arising in connection with their employment with the Applicants or termination thereof, a pension or benefit plan sponsored by the Applicants, including in relation to medical, dental, long-term or short-term disability benefits, life insurance or any other benefit, obligation or payment to which such person (or others who may be entitled to claim under or through such person) may be entitled from or through the Applicants, save and except those who are currently employed and whose benefit or other payments, as described above, arise directly or inferentially out of a collective agreement between the Applicants, or any of them, and the CAW (as defined below) (collectively, the “**LTD Beneficiaries**”);
- (d) the appointment on July 30, 2009 of Sue Kennedy as representative of the LTD Beneficiaries (the “**LTD Beneficiaries’ Representative**”, together with the Former Employees’ Representatives, the “**Settlement Employee Representatives**”), including for the purpose of settling or compromising claims by the LTD Beneficiaries in the CCAA proceedings;

- (e) the appointment on July 22, 2009 of Nelligan O'Brien Payne LLP and Shibley Righton LLP to act as representative counsel (the "**Continuing Employees' Representative Counsel**") to all Canadian non-unionized employees of the Applicants whose employment with the Applicants is continuing (the "**Continuing Employees**"); and
 - (f) the appointment on July 22, 2009 of Kent Felske and Dany Sylvain as representatives of the Continuing Employees (the "**Continuing Employees' Representatives**", together with the Former Employees' Representatives and the LTD Beneficiaries' Representative, the "**Employee Representatives**").
18. Notwithstanding the appointment of Former Employees' Representative Counsel, any Former Employees already represented by Lewis Gottheil ("**CAW Counsel**", and together with the Settlement Representative Counsel and Continuing Employees' Representative Counsel, the "**Representative Counsel**"), counsel to the National Automobile, Aerospace, Transportation and General Workers union of Canada ("**CAW**"), continue to be so represented and are not included in the mandate of the Former Employees' Representative Counsel (with all active and retired employees of the Applicants represented by CAW being referred to herein collectively as the "**Unionized Employees**").
19. This Honourable Court made specific mention that the employee representatives seeking appointment on behalf of former employees are members of the Nortel Retiree and Former Employee Protection Canada, a national-based group of over 2,000 former

employees with a stated mandate to defend and protect pensions, severance, termination and retirement payments and other benefits.

20. Individual employees in the various constituencies were provided notice of the above appointments and the opportunity to opt-out of any such representation and alternatively represent themselves as an independent individual party to the extent they wish to appear in the CCAA proceedings. The Monitor has received two (2) opt-out letters, one from a former employee and one from an active employee.
21. The various appointments described above and approved by Court Orders provide an important framework for the efficient resolution of employment related issues.
22. As a result of progress made in the proceedings, including various significant sale transactions and the approval of the Final Canadian Funding and Settlement Agreement, the Settlement Parties utilized this framework to reach the Settlement.
23. The Settlement Parties have entered into a Settlement Agreement dated February 8, 2010 (the "**Settlement Agreement**"). A copy of the Settlement Agreement is attached hereto as Appendix "A". Attached as Schedule "C" to the Settlement Agreement is a letter between the Applicants and the Superintendent of Financial Services of Ontario, in his capacity as administrator of the Pension Benefits Guarantee Fund, with respect to the Settlement Agreement.
24. The Settlement Agreement primarily affects former employees, pensioners and LTD Beneficiaries. Although Continuing Employees' Representative Counsel is not a party to the Settlement Agreement, the Monitor and the Applicants have apprised such counsel of

the settlement process and the Settlement Agreement and have provided such counsel with drafts of relevant documents. The active employees represented by Continuing Employees' Representative Counsel are included in the notice and opposition process described below.

25. The Applicants have advised the Monitor that they expect to attend before this Honourable Court on March 3, 2010 to request approval of the Settlement Agreement and matters required to implement the Settlement(the "**Settlement Approval Motion**"). The form of Order being sought at the Settlement Approval Motion is attached as Schedule "B" to the Settlement Agreement. Prior to that motion, the Monitor intends to submit a further report to this Honourable Court addressing the basis for its recommendation for approval of the Settlement Agreement and its belief that the Applicants have sufficient funds to make the payments contemplated by the Settlement Agreement.
26. The motion materials relating to the Notice Procedure Order were served as soon as practicable following execution of the Settlement Agreement. As indicated below, motion materials relating to the Settlement Approval Motion will be served on, among others, the Service List.

NOTICE AND OPPOSITION PROCESS

27. As described above, pursuant to the terms of the various court orders, the interests of Former Employees, LTD Beneficiaries, Continuing Employees and Unionized Employees, with the exception of one active employee and one former employee, are represented in these CCAA proceedings by the Employee Representatives and Representative Counsel. This includes, in the case of the Former Employees and LTD

Beneficiaries, representation for the purpose of settling and compromising claims. Notwithstanding this representation, the Settlement Parties are of the view that a Court-approved notice and opposition process will be beneficial primarily to ensure that: (a) all parties on whose behalf, now or in the future, the Settlement Employee Representatives, Settlement Representative Counsel and CAW entered into the Settlement Agreement are provided with adequate notice of the Settlement Approval Motion and the opportunity to appear and oppose such motion, failing which, such parties will, among other things, be bound by the terms of the Settlement Agreement and the Settlement Approval Order; and (b) those parties who are not represented by the Settlement Employee Representatives and the Settlement Representative Counsel (in particular, active employees of the Applicants) are provided with adequate notice of the Settlement Approval Motion and the opportunity to appear and oppose such motion, failing which, such parties will, among other things, be bound by the terms of the Settlement Approval Order.

28. Several steps to provide notice of the Settlement have taken place. Specifically, Settlement Representative Counsel has advised the Monitor: (a) it held a webinar on February 3, 2010, available to the constituents it represents and the Unionized Employees, for the purpose of providing such parties with advance notice of a forthcoming motion that would impact their situation; (b) it intends to issue one or more press releases, on or about February 8, 2010 (in both English and French), regarding the Settlement and the holding of a webinar relating thereto; and (c) it intends to hold the webinar on or about February 23, 2010, available to its constituents and the Unionized Employees to review and respond to inquiries regarding the Settlement Agreement and the notice and opposition process described below.

29. The Applicants have also advised the Monitor that they intend to issue a press release to announce the entering into of the Settlement Agreement on or about February 8, 2010 (in both English and French).

Notice

30. The Monitor will post a copy of a document package including a notice letter substantially in the form attached hereto as Appendix "B" (the "**Notice Letter**"), a notice of appearance substantially in the form attached hereto as Appendix "C" (the "**Notice of Appearance**"), the Settlement Agreement and all Schedules thereto, the Thirty-Sixth Report and the Notice Procedure Order (collectively, the "**Settlement Document Package**") on its website at "www.ey.com/ca/nortel" as soon as practicable but in any event within two days following the making of the Notice Procedure Order. The Settlement Document Package will include a French translation of the Notice Letter and the Notice of Appearance.
31. The Monitor, on behalf of the Applicants, will send a copy of the Notice Letter to each of the Former Employees, the LTD Beneficiaries, the Unionized Employees, the Continuing Employees and provincial pension plan regulators (collectively, the "**Affected Settlement Notice Parties**") (for which it has an address) as soon as practicable but in any event within seven days following the making of the Notice Procedure Order.
32. The Monitor will publish an English version of the Notice Letter in the Toronto Star, The Globe and Mail (National Edition), the Ottawa Citizen, the London Free Press, the Montreal Gazette, the Calgary Herald, the Halifax Chronicle Herald, the Kingston Whig Standard, the Vancouver Sun and the Belleville Intelligencer and a French translation of