

**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-SECOND REPORT OF THE MONITOR
DATED NOVEMBER 30, 2009**

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. ("EYI") was appointed as the Monitor of the Applicants (the "Monitor") in the CCAA proceedings. The stay of proceedings was extended to December 18, 2009, by this Honourable Court in its Order dated October 28, 2009.
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 and NNC 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 respectively, representative counsel was appointed on behalf of the former employees of the Applicants and on behalf of the continuing employees of the Applicants and each of these groups is participating in the CCAA proceedings.
4. Nortel Networks (CALA) Inc. (together with NNI and those 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 (together the “EMEA Debtors”) were granted Administration orders (the “U.K. Administration Orders”) by the English High Court on January 14, 2009. The U.K. 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 “UK Administrators”). On June 8, 2009, the UK 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 U.K. and Israel as Administrators of NN Israel and provided a stay of NN Israel’s creditors which, subject to further orders 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-Second report of the Monitor (the “Thirty-Second Report”) is to report on the following matters:
 - a) Northern Telecom Health & Welfare Trust (the “HWT”); and
 - b) employee hardship application process.

TERMS OF REFERENCE

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

11. Capitalized terms not defined in this Thirty-Second Report are as defined in the Affidavit of John Doolittle sworn on January 14, 2009 (the “Doolittle Affidavit”), the Pre-Filing Report or previous Reports of the Monitor.

GENERAL BACKGROUND

12. Since September 30, 2009, Nortel has conducted its global business through four reportable business unit segments, Wireline and Wireless Networks (“WN”), Metro Ethernet Networks (“MEN”), Carrier Voice Application Solutions (“CVAS”) and LG Nortel Co. Ltd. (“LGN”). The revenue and assets of each of the business units, except for LGN, is distributed among the multiple Nortel legal entities and joint ventures around the world.
13. 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 Chapter 11 Proceedings are posted.

HEALTH AND WELFARE TRUST

Background

14. Since the Filing Date, the Applicants and the HWT have continued to provide long term disability, life and other insurance and medical benefits for eligible current employees and retirees. The Doolittle Affidavit provided background on the provision of these benefits.
15. As stated in the Doolittle Affidavit:
 - a) The Applicants’ primary current retirement program in Canada is the Capital Accumulation and Retirement Program (“CARP”), which consists of a combination of separate pension and other retirement savings plans, a Transitional Retirement Allowance Plan, retiree healthcare, life insurance and

other ancillary benefits. All eligible employees and retirees of the Applicants participate in some combination of the various vehicles and plans that exist under CARP; and

- b) The non-pension CARP benefits are administered by Sun Life Assurance Company of Canada through the HWT. The HWT was originally settled in 1980 with the Montreal Trust Company. The HWT is used to fund certain long term disability, life and other insurance and medical benefits for eligible employees and retirees.

16. Certain of the beneficiaries of the HWT have requested detailed information, including copies of HWT documents.

17. Accordingly, this Thirty-Second Report provides copies of certain documents and other financial information relating to the HWT; however, it does not provide a detailed disclosure of the various benefit programs, legal or financial analysis, or any recommendations with respect to the HWT. The Monitor continues to analyze and have discussions with various stakeholder groups, including court-appointed representative counsel, regarding the issues arising from the HWT and the insolvency of the Canadian Applicants. The Monitor will report to this Honourable Court with respect to any future material developments concerning the HWT.

18. Attached to this Thirty-Second Report are certain documents relevant to the HWT:

- a) Appendix A – An agreement dated as of January 1, 1980 between Northern Telecom Limited (predecessor to Nortel Networks Limited) and the Montreal Trust Company by which the HWT was established (the “Trust Agreement”);
- b) Appendix B – An agreement dated as of September 24, 1984 which resulted in Montreal Trust Company of Canada being appointed as the Trustee;

- c) Appendix C – An amendment to the Trust Agreement dated as of June 1, 1994;
 - d) Appendix D – An agreement dated as of December 1, 2005 which resulted in The Northern Trust Company, Canada being appointed as the Trustee.
19. The majority of assets held in the HWT are of a long-term nature and their market value as at September 30, 2009 was approximately \$84 million.

EMPLOYEE HARDSHIP APPLICATION PROCESS

20. On July 30, 2009 an order was issued by this Honourable Court (the “Employee Hardship Order”) approving an employee hardship application process described in the Monitor’s Sixteenth Report and the Affidavit of John Doolittle dated July 24, 2009, which, among other things:
- a) established an amount of \$750,000 (maximum of \$12,100 per claimant) to be available to satisfy claims of former employees meeting certain hardship criteria;
 - b) set out the eligibility requirements procedure with respect to the hardship payment application process, including providing for an application period from July 30, 2009 to November 30, 2009 (the “Application Period”) and
 - c) confirmed that any hardship payments made are to be treated as advances against future distributions.
21. In accordance with the terms of the Employee Hardship Order, the Monitor posted a copy of the Employee Hardship Order (including a French translation), the Eligibility Requirements and the Procedure With Respect To Hardship Payment Applications and Application For Hardship Payments (collectively, the Eligibility and Procedure Form) on its website. In addition, the Nortel Retirees and Former Employees Protection Committee (the “NRPC”) have also posted a link to the

Koskie Minsky LLP website which provides copies of the Eligibility and Procedure Form in both English and French. A copy of the Eligibility and Procedure Form is attached as Appendix E.

22. The Employee Hardship Order required the Monitor to report to this Honourable Court by November 30, 2009 on the process with respect to the processing and administration of hardship applications. The Twenty-Second Report of the Monitor provided an update regarding the process including an overview of all applications received up to September 25, 2009 with respect to this matter.

Processing of Applications

23. As of the date of this Thirty-Second Report, the Monitor has received twenty-eight applications (nineteen applications as of September 25, 2009) for hardship payments. The initial determination of approval or rejection of applications has been made in a timely manner.
24. Eleven claims totalling \$80,818 (six hardship claims totalling \$37,630 as of September 25, 2009) have been accepted to date. The payments range from \$1,080 to \$12,100, with certain payments being made in instalments. As of the date of this Thirty-Second Report, a total of \$55,418 (\$23,831 as of September 2009) has been paid to hardship claimants.
25. Sixteen hardship claim applications (thirteen hardship claim applications as of September 25, 2009) have not been approved to date for one or more of the following reasons:
 - a) The applicant was not resident in Canada;
 - b) Existence of family income (including but not limited to spousal income, receipt of pension income, receipt of employment income and receipt of employment insurance payments); and

- c) Medical costs which did not meet the criteria outlined in the eligibility requirements (in light of available income) or day-to-day expenses which were not, in and of themselves, considered significant financial hardship.
26. One recently received application, remains in the initial determination stage.
27. Those applicants whose hardship claims are rejected in whole or in part have been advised they may contact the Monitor either to appeal or to advise the Monitor of any changes in their circumstances.
28. The informal review committee (the "Review Committee") contemplated in the Employee Hardship Order was established and has met by telephone on several occasions to review the process, preliminary results and to formally address appeals.
29. As of the date of this Thirty-Second Report, four appeals (two appeals as of September 2009) have been received to date by the Monitor. The appeals received subsequent to September 25, 2009 were of previously appealed awards. A further \$2,500 was awarded in these appeals.
30. The Monitor is continuing to administer the hardship payment application process and report thereon to the relevant representative counsel. There remains \$669,182 of the \$750,000 provided for under the Employee Hardship Order. Applications continue to be received from former employees of the Applicants who are asserting financial hardship as a result of illness, healthcare costs, or ineligibility for pension or employment insurance benefits.
31. Those individuals awarded hardship payments should also have claims against the Applicants in the CCAA proceedings. However, any distributions under a plan of compromise or arrangement are not anticipated to occur in the near term. Accordingly, the Monitor supports the Applicants' request that the Application Period be extended until and including January 31, 2010 and that Eligibility

Requirements and the Procedure With Respect To Hardship Payment Applications be amended accordingly.

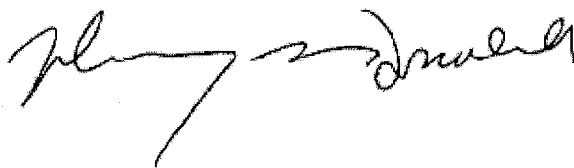
MONITOR'S RECOMMENDATIONS

32. Since the Filing Date, the Applicants and the HWT have continued to provide long term disability, life and other insurance and medical benefits for eligible current employees and retirees. The HWT, although not subject to these proceedings, is integral to the provision of these benefits. Accordingly, the Monitor will continue to report to this Honourable Court with respect to any future material developments and related analysis regarding the HWT.
33. The Monitor supports the Applicants' request that the period for receipt of hardship applications be extended until and including January 31, 2010 by this Honourable Court.

All of which is respectfully submitted this 30th day of November, 2009.

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

Per:

A handwritten signature in black ink, appearing to read "Murray A. McDonald". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Murray A. McDonald
President

Appendix A

THIS AGREEMENT made as of the 1st day of January, 1980.

B E T W E E N:

NORTHERN TELECOM LIMITED,
a corporation incorporated under
the laws of Canada, and having
its Registered Office in the
City of Montreal, Province of
Québec,

(hereinafter referred to as the
"Corporation")

A N D:

MONTREAL TRUST COMPANY,
a company incorporated pursuant
to the laws of Quebec and having
its Head Office at the City of
Montreal, therein,

(hereinafter referred to as the
"Trustee")

WHEREAS:

1. The Corporation has established for the benefit of certain of its employees and the employees of such affiliated or subsidiary Corporations as the Corporation may designate, certain Health and Welfare plans, and such other similar plan or plans as the Corporation may from time to time place in effect, as follows:

- a) a Health Care Plan;
- b) a Management Long Term Disability Plan;
- c) a Union Long Term Disability Plan;
- d) a Management Survivor Income Benefit Plan;
- e) a Management Short Term Disability Plan;

f) a Group Life Insurance Plan;

all of which are hereinafter collectively referred to as the "Health and Welfare Plan".

2. To give effect to the Health and Welfare Plan it is necessary to establish a trust fund to be known as the "Health and Welfare Trust".

Now therefore in consideration of the premises and the mutual covenants herein contained the Corporation and the Trustee, hereby covenant and agree as follows:

ARTICLE I - DEFINITIONS

1. The term "Trustee" shall mean the Trustee herein named its successors and assigns and shall include the person, legal entity or corporation to whom the Trustee may delegate such powers as are necessary for the sound and efficient administration of the Trust Fund.
2. The term "Benefits" as used herein shall mean payment benefits as determined under the Health and Welfare Plan.
3. The term "Eligibility Requirements" as used herein shall mean the rules, regulations and procedures established from time to time by the Corporation for determining the eligibility of Employees for Benefits.
4. The term "Employees" shall mean those active and retired employees of the Corporation and

designated affiliated or subsidiary corporations which have adopted the Health and Welfare Plan, including dependents as defined in Schedule A, on whose behalf contributions are or have been made to the Trust Fund and who are eligible for benefits under the Health and Welfare Plan.

5. The term "Employer's Contribution" as used herein shall mean payments required to be made by the Corporation and by designated affiliated or subsidiary corporations to the Trust Fund to enable the Trustee to discharge the obligations arising under the Health and Welfare Plan.
6. The term "Trust Fund" as used herein shall mean all of the assets of the "Health and Welfare Trust" including all funds received by way of contributions from the Corporation and those of its designated affiliated or subsidiary corporations in accordance with the provisions of the Health and Welfare Plan and of this Trust Agreement, and all employees' contributions together with all profits, increments, and earnings thereon.

ARTICLE II - TRUST FUND

1. The Trust Fund is created for the purpose of providing the Health and Welfare Plan benefits for the benefit of the Employees.
2. All payments made to the Trustee from time to time by the Corporation and designated affiliated or subsidiary corporations and by the employees, together with all profits, increments and

earnings thereon, shall be irrevocable and constitute upon receipt by the Trustee, the Trust Fund to be administered by the Trustee in accordance with the terms of this Trust Agreement, the Health and Welfare Benefit Plan and the Eligibility Requirements.

3. The Trustee shall from time to time on the written directions of an officer of the Corporation so designated by its Board of Directors, or failing such designation, by the Secretary, of the Employees' Benefit Committee of the Corporation, or a Plan Administrator appointed by the Corporation, make payments out of the Fund to such persons, in such manner and in such amounts as may be specified in such directions to the Trustee. In each instance, the written directions shall be deemed to include a certification to the Trustee that such directions and the payments to be made pursuant thereto are in accordance with the terms of the Health and Welfare Plan, which certification shall constitute full and complete protection to the Trustee in complying with such directions.

ARTICLE III - TRUSTEE

1. The Trustee, who shall also be known as the "Trustee of the Health and Welfare Trust", hereby accepts the trust created by the Trust Agreement and agrees to hold, invest, distribute and administer the Trust Fund in accordance with the

terms and conditions of the Health and Welfare Plan and this Trust Agreement.

2. The Trustee is authorized and empowered:

- a) To sell or otherwise dispose of any property held by it;
- b) To exercise all voting and other rights in respect of any stocks, bonds, properties or other investments held in the Trust Fund;
- c) To execute all documents of transfer and conveyance that may be necessary or appropriate to carry out the powers herein granted;
- d) To make payments out of the Trust Fund and to reimburse itself for disbursements incurred pursuant to the exercise of the authorities and powers herein set forth, unless paid by the Corporation;
- e) All monies, securities for money and other assets from time to time held by the Trustee may be in negotiable form or recorded or registered in the name of the Trustee or in the name of its nominee;
- f) When instructed to do so by the Corporation, to commence, maintain, defend, adjust and settle suits and legal proceedings and to represent the Trust Fund at any such suits or proceedings at law or otherwise for the enforcement or realization of any investment;

provided that the Trustee shall not be obliged or required to do so unless it has been first indemnified to its satisfaction against all expenses and liabilities sustained or anticipated by it, and the Corporation hereby agrees so to indemnify the Trustee.

- g) In general, in the carrying out of its duties and responsibilities under the Trust Agreement to exercise the general powers accorded by law to trustees.
- h) The Trustee shall hold, invest and reinvest the principal and income. The Trustee may keep the investments of the Trust fund wholly or partly, in its principal office or in any one or more of its branches in any Province of Canada. Unless otherwise directed by the Corporation, the Trustee shall make only such investments as comply with the limitations and restrictions imposed by applicable Federal and Provincial laws and regulations respecting the investments of trust funds.

Notwithstanding the foregoing, the Corporation may, at any time, or from time to time, direct the Trustee as to specific or general investment of the Trust Fund, and the Trustee shall comply with such directions.

Whenever the Trustee is required or authorized to take any action pursuant to the provisions of this paragraph upon the request, direction or authorization of the

Corporation, such request, direction or authorization shall be a sufficient protection to the Trustee if contained in a writing signed by any person authorized by resolution of the Corporation's Board of Directors to sign such a writing. The Corporation will indemnify and hold harmless the Trustee of and from any liability or expense incurred by it arising out of any payment out of or disposition of the Trust Fund made by the Trustee pursuant to any such request, direction or authorization of the Corporation.

- i) The Trustee may hold such part of the Trust Fund uninvested as the Trustee may deem advisable in the best interests of the Trust Fund for the proper administration thereof.
- j) The Trustee may keep such portion of the Trust Fund, as may from time to time be deemed by it to be in the best interests of the Trust Fund, on deposit in a chartered bank or Government Savings Bank in Canada at such rate of interest, if any, as may be allowed thereon, or on demand deposit at an agreed interest rate with any Trust Company (including the Trustee) then licensed under the laws of Canada or of any Province thereof to carry on business as such.
- k) Notwithstanding any other provision of this Agreement and subject to clause 2 (h) hereof, the Trustee will invest and reinvest all or such portion of the Trust Fund as the

Corporation may from time to time direct in writing in the Northern Telecom Group Trust Fund established by the Company and the Trustee pursuant to an Agreement made and entered into as of the 1st day of January, 1980.

- 1) (i) the Trustee shall, in accordance with the written direction of the Corporation from time to time invest all or any part of the Trust Fund jointly with assets belonging to any other trust funds maintained under a pension plan maintained with the Trustee by the Corporation or by any Corporation associated, subsidiary to or affiliated with the Corporation, and may jointly invest and reinvest on behalf of the Trust Fund and such other trust or trusts, allocating undivided shares or interests in such investments or reinvestments to the two or more trusts in accordance with their respective interests. To facilitate the administration of such joint investments or reinvestments, the Trustee shall identify the undivided shares or interests by way of "units" which shall represent the undivided ownership interest of each participating trust fund in the jointly owned investments;
- (ii) the Trustee shall invest and reinvest all or any portion of the Trust Fund in accordance with the written direction of

the Company in any "Pooled Fund" which phrase shall mean in this Agreement any pooled trust fund maintained by the the Trustee or one of its associated or affiliated Corporations licensed to do business in Canada as a Trustee. Such written direction shall specify that such portion of the Trust Fund to be invested in such Pooled Fund shall be invested as part of one particular section of the Pooled Fund or as parts of two or more sections of the Pooled Fund in such proportions as is set out in such direction, failing which specification the same shall be invested as part of one particular section of the Pooled Fund in such proportion as the Trustee deems advisable.

- m) The Trustee may, with the consent of the Corporation, borrow money in such amounts and upon such terms and conditions as it shall deem advisable and pledge any securities or other property for the repayment of any such loan.
- n) The expenses incurred by the Trustee in the performance of its duties, and such compensation to the Trustee as may be agreed upon in writing from time to time between the Corporation and the Trustee, shall be paid by the Corporation. All taxes of any and all kinds whatsoever that may be levied upon or in respect of the Trust Fund shall be paid

from or be the responsibility of the Trust Fund.

- o) The Trustee shall not be liable for the making, retention, or sale, in good faith, of any investment or reinvestment made by it as herein provided, nor for any loss to or diminution of the Trust Fund, except due to the negligence, wilful misconduct or lack of good faith of the Trustee, its servants, agents or employees.

- p) The Trustee shall keep accurate and detailed accounts of all investments and transactions made by it pursuant to this Agreement and shall keep separate records for each of the separate Plans. The accounts and records relating thereto shall be open to inspection at all reasonable times by any person designated by the Corporation. Within ninety (90) days following the close of each fiscal year of the Trust Fund, or within ninety (90) days after the removal or resignation of the Trustee as provided for in paragraph (q) hereof, the Trustee shall file with the Corporation a statement setting forth all investments and cash transactions effected by it during such fiscal year or during the period from the close of the last fiscal year to the date of such removal or resignation. Upon the expiration of ninety (90) days after the date of filing such annual or other statement, but subject to the provisions of paragraph (o) hereof, the Trustee shall be released and discharged from all liability

