

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

B E T W E E N:

PETER GALLARDI

Plaintiff

- and -

NORTEL NETWORKS CORPORATION, FRANK A. DUNN
DOUGLAS BEATTY, MICHAEL GOLLOGLY,
JOHN EDWARD CLEGHORN, ROBERT ELLIS BROWN,
ROBERT ALEXANDER INGRAM, GUYLAINE SAUCIER,
SHERWOOD HUBBARD SMITH, JR. and DELOITTE & TOUCHE LLP

Defendants

Proceeding under the Class Proceedings Act, 1992

**SETTLEMENT AGREEMENT AND CONFIRMATION
OF STIPULATION AND AGREEMENT OF SETTLEMENT
(THE "SETTLEMENT AGREEMENT")**

(Dated as of June 20, 2006)

WHEREAS on March 9, 2005, the within action was commenced in the Ontario Superior Court of Justice against the defendant, Nortel Networks Corporation ("Nortel"), and other defendants through the issuance of a Statement of Claim;

AND WHEREAS the Statement of Claim alleges that the defendants are liable for misrepresenting Nortel's true financial situation by creating improper cash reserves and issuing false reports and financial statements that artificially inflated Nortel's earnings and the price of Nortel securities during the period of time between April 24, 2003 and April 27, 2004, inclusive, and that Nortel's top executives used such reserves to trigger bonus payments payable in the event of Nortel's return to profitability;

AND WHEREAS the Statement of Claim (as amended) further alleges that Nortel and certain of its officers breached corporate and securities legislation, including the *Canada Business Corporations Act*, the *Ontario Securities Act* and the *Competition Act*;

AND WHEREAS the defendants hereto deny the allegations raised in the Statement of Claim (as amended) and deny any wrongdoing whatsoever, and this Settlement Agreement shall in no event be construed or deemed to be evidence of or an admission or concession on the part of any defendant hereto with respect to any claim of any fault or liability or wrongdoing or damage whatsoever;

AND WHEREAS the plaintiff in this action filed with the Ontario Superior Court of Justice and delivered their motion material for certification to the defendants in November 2005;

AND WHEREAS during the pendency of this action, counsel for the plaintiff have conducted investigations related to the claims and the underlying events alleged in the claim, including but not limited to, consultations with various experts on issues such as quantifying damages and assessing Nortel's business and accounting practices, and have further conducted substantial research in respect of the causes of action asserted in the claim and in preparation for the pending certification motion;

AND WHEREAS on February 8, 2006, Nortel announced that an agreement in principle was reached in relation to two class actions pending in the U.S. Federal District Court for the Southern District of New York (the "U.S. Actions") for a global settlement of certain shareholder class actions in Canada and the U.S., including the within action (the "Global Settlement"), for, among other benefits, payment of US\$575 million in cash and the issuance of 628,667,750 of its common shares (representing 14.5% of Nortel's current equity);

AND WHEREAS on March 17, 2006, Nortel further announced that its insurers agreed to pay US\$228.5 million in cash as part of the proposed Global Settlement;

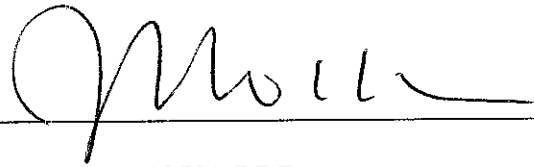
AND WHEREAS following the announcement of the agreement in principle in February 2006, counsel for the plaintiffs in this action, as well as other related class actions pending in British Columbia and Quebec have worked cooperatively with Nortel's counsel and counsel to the lead plaintiffs in the U.S. Actions to negotiate the details of the settlement, to draft the Stipulation and Agreement of Settlement (the "Stipulation"), to coordinate the settlement process, and to obtain the necessary court approvals of the settlement.

AND WHEREAS the plaintiff hereto and Nortel (together with the plaintiff, the "Parties") have agreed to settle this action in accordance with the terms of the Stipulation attached hereto as Schedule "A";

AND WHEREAS Orders on the terms set forth in Exhibits "D" and "F" to the Stipulation will be sought from the Ontario Superior Court of Justice certifying a class for the purpose of settlement as set forth in Exhibit "D" to the Stipulation (the "Class") and for approval of the settlement;

IN CONSIDERATION OF the mutual covenants contained herein and in the Stipulation and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged by each of the Parties), the Parties agree as follows:

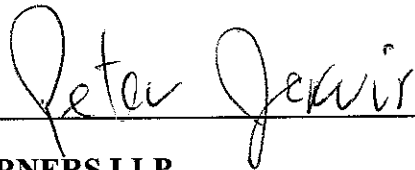
1. The plaintiff hereto and Nortel agree to settle this action as between themselves and also as between Nortel and the Class, as part of the Global Settlement, upon the terms contained in the attached Stipulation and hereby adopt and ratify such terms as the terms for the settlement of this action;
2. Counsel executing this Settlement Agreement warrant and represent that they have full authority to enter into this Settlement Agreement on behalf of their respective clients; and
3. This Settlement Agreement may be signed in counterparts and all such signed counterparts and each of them shall be deemed to be one and the same instrument.



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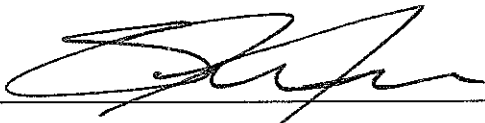
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