

**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 (the "Applicants")**

**SUPPLEMENT TO THE THIRTY-FIFTH REPORT OF THE MONITOR
DATED JANUARY 21, 2010**

PURPOSE

1. This supplement to the thirty-fifth report of the Monitor ("Supplemental Thirty-Fifth Report") is provided in reference to the Monitor's Thirty-Fifth Report.
2. The purpose of this Supplemental Thirty-Fifth Report is to provide additional information regarding the objections filed by the Joint Administrators on January 20, 2010, with respect to the Applicants' motion for approval of the CFSA, including certain information regarding amounts payable and receivable among certain Nortel entities pursuant to transfer pricing arrangements and distribution agreements (collectively "TPA").

TERMS OF REFERENCE

3. In preparing this Supplemental Thirty-Fifth 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, expresses no opinion or other form of assurance on the information contained in this Supplemental Thirty-Fifth Report.

4. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. dollars.
5. Capitalized terms not defined in this Supplemental Thirty-Fifth Report are as defined in the Affidavit of John Doolittle sworn on January 14, 2009 (the “Doolittle Affidavit”), the Thirty-Fifth Report, the Pre-Filing Report or previous Reports of the Monitor.

GENERAL BACKGROUND

6. The Applicants, with the assistance of the Monitor, prepared information in support of the Applicants’ request for funding. This financial information and other analysis included, among other things, forecasts of the Applicants’ cash flow requirements for the period subsequent to October 1, 2009 and certain 2009 payments with respect to transfer pricing arrangements and distribution agreements (“TPA Payments”) from the residual profit sharing entities (“RPS Entities”) and the limited risk entities (“LREs”). This information was provided to and discussed in detail with the financial advisors of the Committee, Bondholder Group and certain other stakeholders, as well as the Joint Administrators beginning in October 2009.

TPA PAYMENTS

7. Nortel has prepared calculations to forecast TPA Payments for Q1 2010 by the various RPS Entities and LREs (the “TPA Forecasts”). These TPA Forecasts were calculated on a basis consistent with TPA calculations prepared by NNL for the post filing period.

8. Based on forecasts and other analysis prepared by NNL under TPA, NNI's contribution on account of operating cash burn and allocated corporate costs for the Settlement Period (as defined in the CFSA) would be \$128.3 million. As a result of extensive negotiations between the Applicants and the U.S. Debtors, under the CFSA the parties ultimately reached a comprehensive settlement arrangement for the Settlement Period which includes an NNI contribution of \$190.8 million, subject to certain adjustments and true-ups.
9. A majority of Nortel's significant business unit divestitures are expected to be substantially completed on or about March 31, 2010. As a result of various considerations, including tax legislation in various countries, Nortel expects TPA Payments to be eliminated or materially reduced for periods after such divestitures.
10. TPA payments with respect to the EMEA entities for the period January 15, 2009 through December 31, 2009 were settled pursuant to the terms of the IFSA. The TPA Forecast for Q1 2010 indicates that NNL and NNI do not owe amounts to the EMEA Debtors collectively. The TPA Forecast indicates that the EMEA Debtors and Nortel Switzerland, an EMEA non-filed entity, collectively owe NNL approximately \$24.7 million.

JOINT ADMINISTRATOR ACCESS TO EDR

11. Nortel established an electronic data room (the "EDR") for the purpose of allowing legal and financial advisors of the various stakeholder groups (all of whom are subject to confidentiality restrictions) access to data and other information for due diligence purposes. The EDR includes a Tax Folder that contains several subfolders including an APA folder containing 14 files and approximately 13 additional files located in various sub folders. These 27 files generally include information that is directly related to or may be relevant with respect to APA and TPA matters. These 27 files were posted to the EDR during the period from February 24, 2009 through October 22, 2009.

12. The information in these files and folders includes, but is not limited to:

- a) TPA agreements and descriptions of the various transfer pricing methodologies used by Nortel;
- b) NNL and NNI APA application submissions;
- c) Sensitivity and other analysis of possible outcomes of the APA application process;
- d) TPA calculations for various time periods; and
- e) general tax information, correspondence and tax filings.

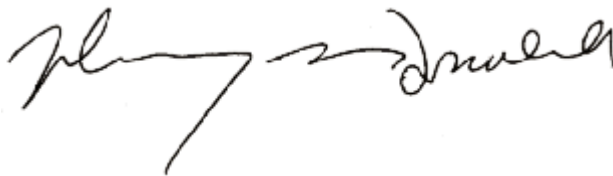
13. Nortel tracks the names, dates and times related to all instances where data in the EDR is accessed. Twelve representatives of the UK Administrator have unrestricted access to all files posted in the EDR and nine of the 27 files noted above were accessed by at least one representative of the UK Administrator.

All of which is respectfully submitted this 21st day of January, 2010.

ERNST & YOUNG INC.

In its capacity as Monitor of the Applicants

Per:

A handwritten signature in black ink, appearing to read 'Murray A. McDonald', written over a horizontal line.

Murray A. McDonald
President