

**ALTERNATIVE
DISPUTE
RESOLUTION
CENTER**

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September 27, 2010

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Re: Nortel Networks Mediation

Alternative Dispute Resolution Center

Irell & Manella LLP

September 27, 2010

Page 2

Dear Counsel:

This letter sets forth the terms upon which we will provide mediation services on behalf of the undersigned parties. It is your request that former United States District Judge Layn R. Phillips, a partner in this firm, provide mediation services rendered under this agreement.

The mediation services have been scheduled for a five (5) day session beginning at **10:00 a.m. on Thursday, November 11, 2010, and continuing at 9:00 a.m. on Friday, November 12th, Sunday, November 14th, Monday, November 15th, and Tuesday, November 16th.** The mediation will be conducted in the downtown offices of **Cleary Gottlieb Steen & Hamilton LLP, One Liberty Plaza, New York, NY 10006.**

1. Judge Phillips will review all relevant documents in the case and such other materials and case citations as you regard as relevant. All confidential briefs should be filed with Judge Phillips and exchanged by e-mail (lphillips@irell.com; lnoesen@irell.com; jsperber@irell.com) by **3:00 p.m. PST on Monday, October 25, 2010** (simultaneous briefing), and shall be no longer than 40 pages (double-spaced, 12 pt. font) (excluding exhibits). Exhibits should be compiled in a three-ring binder sent by overnight mail for delivery on the following business day. Reply papers should be filed with Judge Phillips and exchanged by e-mail (lphillips@irell.com; lnoesen@irell.com; jsperber@irell.com) by **3:00 p.m. PST, on Thursday, November 4, 2010**, and should be no longer than 20 pages (double-spaced, 12 pt. font) (excluding exhibits). Reply exhibits should be compiled in a three-ring binder sent by overnight mail for delivery on the following business day.

As further described below, we require an initial retainer of \$101,250 in order to undertake the above-described mediation. Therefore, depending on how you have decided to split the costs of this mediation, **please remit a check or checks as the case may be in the amount of \$101,250 on or before Monday, October 18, 2010.** Please advise us by email as to how the parties have agreed to share the costs.

2. Of this \$101,250 retainer, \$55,000 covers the mediation sessions you have requested (\$10,000 per weekday session and \$15,000 per weekend session), which amount is non-refundable, except as set forth below. The remaining balance includes \$24,000 which represents my preliminary estimate for 24 hours of preparation in connection with pre-mediation communications, the review of case related materials, exhibits and cited case law, and is refundable to the extent less than \$24,000 or 24 hours are spent in preparation for this mediation. We have also included in the initial retainer amount an estimate of out-of-pocket expenses that will be incurred by Judge Phillips for travel and lodging in the amount of \$8,250. Judge Phillips will also charge 7 hours each way to and from New York City in the amount of \$14,000. If additional time is required in excess of the anticipated 24 hours preparation, and/or the 10 hours scheduled for each mediation day, or the out-of-pocket expenses, the parties will be notified and an additional bill for the excess will be submitted and paid by the parties within 30 days of the date billed.

Alternative Dispute Resolution Center

Irell & Manella LLP

September 27, 2010

Page 3

3. PLEASE READ CAREFULLY. If the mediation is cancelled or rescheduled more than 20 days prior to the scheduled session, there is no cancellation charge. However, if the mediation is cancelled or rescheduled less than 20 days prior to the scheduled session, 100% of the full fee will be charged to the parties, unless Judge Phillips is able to schedule a new mediation for the date that was cancelled or changed.

4. Additional costs incurred by the mediator (i.e., out-of-pocket travel expenses, if applicable, computer research or photocopying to the extent necessary) will be billed to the parties following the mediation and due and payable within 30 days of the date billed.

5. The payment of the retainer shall be presented and/or divided in a manner agreed upon by the parties, and the check or checks should be made payable to **Irell & Manella LLP** (Fed. Tax I.D. No. 95-1946111), **not** Judge Layn R. Phillips.

6. The fee bills will be based on Judge Phillips' mediation rate of \$1,000.00 per hour for all time spent on the matter including conference calls, review of submitted materials and related research, as well as the scheduled mediation and caucus sessions, the issuance of any mediation opinions or reports, and any time devoted to enforcement of any settlement arising out of the mediation. Judge Phillips' legal support staff will bill their hourly rates for assisting Judge Phillips with these tasks.

7. As a mediator, Judge Phillips agrees to keep all information received in connection with any mediation proceedings in confidence. At the conclusion of the mediation, Judge Phillips will either destroy or return to the group and its members all materials provided to him during the course of the mediation, and shall destroy all other documents in his possession concerning the mediation with the exception of his personal notes.

8. Notwithstanding any other provision in this agreement, the parties agree that Judge Phillips will not be placed into any attorney/client relationship by virtue of this mediation, are not represented by the partnership in any capacity, and that the law firm of Irell & Manella LLP will not be precluded from undertaking representations in other matters adverse to or in support of any of the parties or adverse to or in support of any of the attorneys other than with respect to this particular dispute even while the mediation is in process. For example, I&M may now or in the future represent clients who are adverse to the parties or counsel involved in the mediation, including in litigation, and the parties agree that by virtue of conducting this mediation they will not try to use the mediation to disqualify I&M in any such matter. The parties further agree not to sue or make any claims arising out of this matter against the mediator or any entity with which the mediator is affiliated.

If you have any questions concerning these arrangements, please contact me immediately.

Alternative Dispute Resolution Center

Irell & Manella LLP

September 27, 2010

Page 4

Please indicate your agreement to the foregoing by dating and signing this letter where indicated, and returning the signed original to me. **Please note that the mediation cannot commence until all parties have executed this agreement and the retainer has been paid in full.**

We appreciate your bringing this interesting matter to us, and we look forward to working with you on it.

Sincerely,

A handwritten signature in black ink that reads "Lora Noesen". The signature is written in a cursive style with a large initial "L".

Lora Noesen
ADR Case Manager

Alternative Dispute Resolution Center

Irell & Manella LLP

September 27, 2010

Page 5

SIGNATURE PAGE

WE HAVE READ THE ATTACHED RETENTION LETTER AND WE UNDERSTAND AND AGREE TO ITS TERMS

Dated: _____

Name: _____

Representing: United States Debtors

Dated: _____

Name: _____

Representing: Canadian Debtors

Acknowledged by the Monitor

Name: _____

Dated: _____

Dated: _____

Name: _____

Representing: EMEA Debtors

Dated: _____

Name: _____

Representing: Unsecured Creditors Committee

Dated: _____

Name: _____

Representing: Bondholders Committee