

BOARD OF DIRECTORS
OF NORTEL NETWORKS CORPORATION AND
BOARD OF DIRECTORS OF
NORTEL NETWORKS LIMITED

STATEMENT OF GOVERNANCE GUIDELINES

The boards of directors of Nortel Networks Corporation and Nortel Networks Limited (which are identical in membership) have a strong commitment to effective corporate governance. This statement of governance guidelines has been reviewed and recommended for approval by the nominating and governance committee of Nortel Networks Corporation and approved by the boards of directors. This statement of governance guidelines will be reviewed periodically by the boards in light of governance reforms and established best practices to ensure that the governance guidelines followed by the boards are appropriate and effective in enabling the boards to fulfill their responsibilities independently of management and with a view to the best interests of the Corporation and its shareholders generally.

Role of the Boards of Directors and Management

The boards are responsible for supervising the management of the business and affairs of Nortel Networks Corporation and Nortel Networks Limited, respectively. The boards review, discuss and approve various matters related to the strategic direction, business and operations, and organizational structure of Nortel Networks Corporation and Nortel Networks Limited.

The day-to-day business and affairs of each of Nortel Networks Corporation and Nortel Networks Limited is conducted by its employees, including its officers and other members of senior management. The boards expect management to be responsible for the implementation of approved corporate objectives and strategic business plans within the context of authorized budgets, specific delegations of authority for various matters and corporate policies and procedures. Management is expected to report regularly to the boards of directors in a comprehensive, accurate and timely manner on the business and affairs of each corporation. The relationship between management and the boards is to be characterized by integrity, candour and mutual trust and respect, together with an understanding of the different roles and responsibilities of management and the boards of directors in serving the interests of shareholders.

In performing their functions, the boards are entitled to rely on the advice, reports and opinions of management. The directors are invited to contact the chief executive officer of the corporations and the other members of management at any time to discuss any aspect of the business and affairs of Nortel Networks Corporation and Nortel Networks Limited. The boards expect that there will be frequent opportunities for directors to meet with the chief executive officer and other members of management in board and committee meetings, as well as in other formal and informal settings. In addition,

management and the chairman of the boards are encouraged to bring high potential managers who are not part of the senior management team to present to the boards to provide such individuals with exposure to the boards.

Responsibilities of the Boards of Directors

The responsibilities of the boards in supervising the management of the business and affairs of Nortel Networks Corporation and Nortel Networks Limited are described in the mandates approved by the boards of directors, as amended from time to time. Directors are expected to attend board and committee meetings (either in person or by telephone) and regularly scheduled informal discussions with the president and chief executive officer. Each director should be sufficiently familiar with the business of the corporations to participate actively and effectively in board and committee meetings. Directors should review materials sent to them in advance of meetings to assist in the preparation for meetings, and generally devote the time and effort required in order to enable them to fulfill their duties as directors of Nortel Networks Corporation and Nortel Networks Limited. Directors are also generally expected to attend meetings of shareholders of Nortel Networks Corporation in person.

The Code of Business Conduct applies to directors of Nortel Networks Corporation and Nortel Networks Limited, particularly with respect to potential conflicts of interest and transactions in securities. Directors are expected to be familiar with the provisions of the Code and should consult with the corporate secretary or the chief legal officer in the event of any questions or issues.

Directors' gain valuable experience from the other boards on which they serve, however, those other boards may also present demands on a director's time and availability, or present conflicts or legal issues. Directors should advise and consult with the chairman of the boards and/or the chairman of the nominating and governance committee of Nortel Networks Corporation before accepting membership on other boards of directors or other significant commitments involving affiliation with other businesses or governmental units.

If a Director becomes aware of any change in circumstances that might affect the "independence" of such Director, as defined under the applicable requirements of all stock exchanges on which the Corporation lists its securities and of securities regulatory authorities, as adopted or amended and in force from time to time, then that Director shall immediately notify the chairman of the board, the chairman of the nominating and governance committee and the corporate secretary or chief legal officer of Nortel Networks Corporation and Nortel Networks Limited so that the appropriate review of such Director's continued "independence" can be performed.

Management Succession

At least annually, the Board shall review the succession plans, developed by management and reviewed with the compensation and human resources committee, for the chief

executive officer and his direct reports, both in case of emergency and in the ordinary course of business. The succession plans shall include an assessment of the experience, performance, skills and planned career paths for possible internal successors to such individuals against the criteria to be utilized to select such successors.

Qualifications of Directors

The nominating and governance committee of the board of Nortel Networks Corporation makes recommendations to the boards of directors with respect to the appropriate size of the boards. The nominating and governance committee is also responsible for identifying new candidates for election or appointment to the board of Nortel Networks Corporation and the committee also makes similar recommendations to the board of Nortel Networks Limited. In identifying potential candidates for election or appointment to the boards, the nominating and governance committee may consider individuals identified by the committee performing its own candidate search, individuals suggested by other directors (including management directors) and individuals identified using a third party director search firm. The nominating and governance committee also considers nominations of persons recommended by shareholders for election to the board of Nortel Networks Corporation. Shareholders wishing to recommend a person for election to the boards of directors should submit such person's name, information as to such person's background and qualifications, and such person's consent to be named in the proxy circular and to serve as a director if elected, in writing to the corporate secretary at Nortel Networks Corporation, 195 The West Mall, Toronto, Ontario, Canada, M9C 5K1 for consideration by the nominating and governance committee. The nominating and governance committee shall consider and evaluate such person as a possible nominee for election or appointment as a director utilizing the criteria described below and in the same manner as it considers all other individuals being considered for nomination for election or appointment to the boards of directors. In order to permit sufficient time for such consideration and evaluation by the nominating and governance committee, shareholders should make their submissions by December 31 in each year, prior to the holding of the next shareholders' meeting.

In identifying candidates for election or appointment to the board of directors, the board of directors, recognizing the benefits of diversity, has directed the nominating and governance committee to seek to select candidates who by virtue of their differing skills, areas of expertise, professional and personal backgrounds, industry knowledge, geographic location, and geographic or industry contacts, are best able to contribute to the direction of the business and affairs of Nortel Networks Corporation and Nortel Networks Limited and able to devote sufficient time and resources to the duties of a board member. The interplay of a candidate's skills, expertise, experience and personality with the skills, expertise, experience and personality of other directors on the boards, and the extent to which an individual would be a desirable addition to the boards by contributing to building boards that are effective, collegial and responsive to the needs of the corporations shall also be considered. Along with a broad range of experience (particularly with respect to organizations of similar size and complexity), business acumen, and sound judgment, directors are also expected to possess integrity and strong character and reputation, and to be committed to Nortel Networks Corporation and Nortel Networks Limited and their business plans, and to building shareholder value for all shareholders over the long-term.

The following guidelines also apply with respect to the nomination of directors for election:

- a majority of the boards of directors shall consist of directors who the boards have affirmatively determined are "independent" as defined under the applicable requirements of all stock exchanges on which Nortel Networks Corporation and Nortel Networks Limited list their securities and of securities regulatory authorities, as adopted or amended and in force from time to time, and such determinations shall be made in accordance with the Standards for Director Independence attached as Schedule A, as amended by the boards of directors from time to time;
- there should be a maximum of 15 directors on each of the boards of directors and the size of the boards should be conducive to efficient decision-making and facilitate substantive discussions of the whole board in which individual directors contribute, as well as reflect the appropriate balance of skills, experience, and expertise on the boards, and the appropriate director succession planning;
- directors who have reached the age of 70 years old will generally not be permitted to stand for re-election to the boards;
- directors whose primary employment status has changed will be required to submit their resignation for consideration by the boards;
- directors whose annual board and committee attendance falls below 75 percent for a year will not be allowed to stand for re-election to the boards, unless such attendance was due to health reasons or other extenuating circumstances acceptable to the boards;

- the tenure of directors elected after December 16, 1993 should generally be limited to a period not exceeding ten years, with any extension thereof to be at the discretion of the boards;
- no former chief executive officer of Nortel Networks Corporation and/or Nortel Networks Limited will generally be allowed to stand for re-election to the boards upon his or her resignation or retirement as a chief executive officer, unless otherwise determined by the boards to be in the best interests of Nortel Networks Corporation and/or Nortel Networks Limited due to circumstances existing at that time;
- no more than three management directors, including the chief executive officer, will be allowed to serve on the boards at any one time; and
- any person invited to stand for election or appointment to the boards shall give a commitment to serve for at least five years from the date of their first election or appointment.

Composition of the Boards of Directors

The current corporate structure of Nortel Networks Corporation and Nortel Networks Limited resulted from a plan of arrangement carried out in May 2000 under which Nortel Networks Corporation acquired, in exchange for its common shares, all of the issued and outstanding common shares of Nortel Networks Limited and Nortel Networks Limited became the principal operating subsidiary of Nortel Networks Corporation. In light of this corporate structure, and subject to any applicable legal, regulatory or stock exchange requirements and to the rights attaching to any outstanding securities of Nortel Networks Limited, it is considered appropriate and desirable that the composition of the boards of directors of Nortel Networks Corporation and Nortel Networks Limited be the same unless circumstances require otherwise.

A majority of the boards of directors shall consist of directors who the boards have affirmatively determined are “independent” as defined under the applicable requirements of all stock exchanges on which Nortel Networks Corporation and Nortel Networks Limited list their securities and of securities regulatory authorities, as adopted or amended and in force from time to time. In addition, the composition of the boards will comply with the other applicable requirements of the *Canada Business Corporations Act*, the stock exchanges on which Nortel Networks Corporation and Nortel Networks Limited list their securities and securities regulatory authorities, as adopted or amended and in force from time to time. The boards of directors will also consider the application of any applicable stock exchange guidelines or recommendations regarding the composition of the boards of directors.

Committees of the Boards of Directors

The boards shall have at least the committees required by the applicable requirements of the *Canada Business Corporations Act*, the stock exchanges on which Nortel Networks Corporation and Nortel Networks Limited list their securities and securities regulatory authorities, as adopted or amended and in force from time to time. In the case of Nortel Networks Corporation, the committees shall include a nominating/corporate governance committee (nominating and governance committee), a compensation committee (compensation and human resources committee) and an audit committee. The committees of the boards, with the exception of the executive committee (if any), will be composed entirely of outside or non-management directors. The composition of committees will comply with the applicable requirements of the *Canada Business Corporations Act*, the stock exchanges on which Nortel Networks Corporation and Nortel Networks Limited list their securities and securities regulatory authorities, as adopted or amended and in force from time to time, including the requirements that the nominating/corporate governance committee and the compensation committee be composed solely of “independent” directors and that the audit committee be composed solely of “independent” and “financially literate” directors. The boards of directors will also consider the application of any applicable stock exchange guidelines or recommendations regarding the composition of committees of the boards of directors. All committees of the boards of directors must meet at least once a year.

The nominating and governance committee recommends the appropriate committee structure, committee responsibilities and mandates, committee memberships and committee chairmen to the boards for approval. All committees have written mandates or charters approved by the boards of directors.

Role of Chairman of Committees

The chairman of a committee is responsible for ensuring that the committee functions in a manner that is independent of management, including managing meeting schedules, chairing meetings of the committee, acting as a liaison between senior management and the committee and providing advice to senior management on various matters. The committee chairman, with the assistance of the secretary to the committee and in consultation with the appropriate members of senior management, shall set the agendas for meetings of a committee. Any director, whether or not a committee member, may suggest that an item be added to the agenda for consideration by a committee at a committee meeting. The chairman of each committee reports on the significant matters considered at a committee meeting at the next board of directors’ meeting and minutes of committee meetings are circulated to the board of directors for review.

Role of the Chairman of the Board

On an annual basis, the boards appoint a chairman of the board from the outside or non-management directors on the boards and the chairman of the boards serves in a non-executive capacity, unless otherwise determined by the boards to be in the best interests

of Nortel Networks Corporation and/or Nortel Networks Limited due to circumstances existing at that time. The chairman of the board is responsible for ensuring that the boards function in a manner that is independent of management, including managing meeting schedules and setting agendas, chairing the meetings of the boards, acting as a liaison between senior management and the boards, and providing advice to senior management on various matters. The chairman of the board shall have adequate support staff to carry out the chair's responsibilities. The chairman of the boards is expected to devote a significant amount of time and effort to fulfilling the responsibilities of chairman and the boards of directors shall determine his or her additional compensation for serving as chairman of the boards accordingly.

Meetings of the Boards of Directors and Committees

The boards of directors plan to hold at least eight board meetings a year. A schedule of board and committee meetings is approved by the boards of directors annually. Additional meetings of the boards of directors and their committees are held as appropriate. The committees shall meet at least once a year. Executive sessions of the board of directors of Nortel Networks Corporation, without members of management present (including management directors), must be held at every board meeting, whether such meeting is conducted in-person or telephonically. Executive sessions of the board of directors of Nortel Networks Limited without members of management present (including management directors), must be held at every board meeting, whether such meeting is conducted in-person or telephonically. At every committee meeting, whether such meeting is conducted in-person or telephonically, the committee shall meet in executive session without members of management present (including management directors). Executive sessions are chaired by the non-executive chairman or, in his absence, by another outside or non-management director selected by the boards.

The chairman of the boards, with the assistance of the corporate secretary and in consultation with the chief executive officer, shall set the agendas for meetings of the boards of directors. Any director may suggest that an item be added to the agenda for consideration by the board of directors at a board meeting.

Access to Independent Advisors

The boards of directors and each committee of the boards may, as necessary or desirable, retain independent advisors or consultants to assist them in the performance of their responsibilities, on the terms and conditions, including fees, as the boards or committees consider appropriate.

Annual Assessments

The nominating and governance committee of Nortel Networks Corporation conducts an annual survey on the effectiveness of the operations of the boards of directors of Nortel Networks Corporation and Nortel Networks Limited and their committees, and of the individual directors. The chairman of the nominating and governance committee reports

on the results of the annual assessments to the boards of directors. An assessment should consider, in the case of the board or a board committee, its mandate or charter and, in the case of an individual director, the applicable position description(s) as well as the competencies and skills each individual director is expected to bring to the board. Each of the nominating and governance committee, the compensation and human resources committee and the audit committees of the boards of directors will also perform annual performance evaluations in such manner as such committee deems appropriate, assessing its performance in light of the responsibilities contained in its mandates, and each such committee shall report the results of its evaluation to the boards of directors.

Compensation of Directors

The boards and the nominating and governance committee of Nortel Networks Corporation periodically review the adequacy and form of compensation (cash or stock-based) received by directors to ensure that the compensation received by the directors is competitive, reflects market practices, and accurately reflects the risks and responsibilities involved in being an effective director. The compensation of directors is considered on a combined basis in light of the overall governance structure of Nortel Networks Corporation and Nortel Networks Limited. In assessing director compensation, the nominating and governance committee shall consider director compensation surveys, as well as the compensation paid to directors of comparator companies (which shall be the same companies as those utilized to assess executive compensation). Non-management directors shall not receive stock options as compensation for serving as directors. Management directors of Nortel Networks Corporation and Nortel Networks Limited generally shall not receive compensation for serving as a director. Directors shall not be retained to provide advisory or consulting services for Nortel Networks Corporation or Nortel Networks Limited.

Director Orientation/Education

The corporate secretary and the chief financial officer are responsible for providing an orientation for new directors, including briefing materials and arranging for a personal briefing by senior management on various corporate matters. The boards also receive periodic presentations from senior management on issues relevant to the business and affairs of Nortel Networks Corporation and Nortel Networks Limited, as well as the industry and competitive environment in which they operate.

Communications with Directors

Interested parties, including shareholders and other security holders, may communicate directly with the boards, non-management directors, the chairman of the boards or any other individual directors by writing to the boards or such individual directors care of the corporate secretary at Nortel Networks Corporation, 195 The West Mall, Toronto, Ontario, Canada, M9C 5K1. All correspondence, with the exception of solicitations for the purchase or sale of products and services and other similar types of correspondence, shall be forwarded to the boards, non-management directors, the chairman of the boards or to the individual directors to whom such correspondence is addressed. In addition, any

such communication that relates to accounting, internal accounting controls or auditing matters will also be referred to the chairman of the audit committees, if not already addressed to him or her.

Effective February 22, 2008

Schedule A

Nortel Networks Corporation

Nortel Networks Limited

Standards for Director Independence

The following standards shall be applied by the Board of Directors of the Company for determining whether a Director is “independent” within the meaning of the applicable rules and policies under the United States Securities Exchange Act of 1934, as amended, and of the New York Stock Exchange and the Canadian Securities Administrators for purposes of service on the Board and its Committees.

A Director will be considered to be “independent” only if the Board of Directors of the Company has affirmatively determined that:

1. the Director has no material relationship with the Company or its subsidiaries, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company; and
2. the Director is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director’s ability to act with a view to the best interests of the Company (other than interests and relationships arising solely from the Director’s shareholdings in the Company).

Independent Determinations. Determinations will be made on an annual basis at the time the Board approves director nominees for inclusion in the information circular and, if a director joins the Board between annual meetings, at such time. If at any time a Director notifies the Company of a change in his relationships with the Company that could impact on such Director’s status as an independent and director, the Board of Directors will make a further determination.

For purposes of these determinations, a director will be considered not to be independent:

- (a) the Director is an employee, including an executive officer, of the Company, or has an immediate family member who is an executive officer of the Company, and such Director shall not be considered to be independent until three years after the end of such employment relationship; provided, however, that employment or service as an interim executive Chairman of the Board or an interim Chief Executive Officer, shall not disqualify a Director from being considered independent immediately following that employment or service;

- (b) the Director, or an immediate family member of the Director, receives more than US\$100,000 per year in direct compensation (provided that compensation received by an immediate family member of a Director for service as a non-executive employee and compensation received by a Director for former service as an interim executive Chairman of the Board or an interim Chief Executive Officer need not be considered) from the Company, other than Director (including chairman) and committee fees and pension or other deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service) and such Director shall not be considered to be independent until three years after he or she, or his or her immediate family member, ceases to receive more than US\$100,000 per year in such compensation;
- (c) the Director is affiliated with, a partner of or employed by a present or former internal or external auditor of the Company (or has an immediate family member who is affiliated with or employed in a professional capacity by such firm) and such Director shall not be considered to be independent until three years after the end of the affiliation of the employment or auditing relationship;
- (d) the Director is, or has an immediate family member who is, employed as an executive officer of an entity in which any executive of the Company serves on that other entity's compensation committee and such Director shall not be considered to be independent until three years after the end of such service or the employment relationship;
- (e) the Director is a current executive officer or employee, or has an immediate family member who is a current executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds (i) the greater of US\$1 million, or two percent of such other companies consolidated gross revenues or (ii) five percent of the consolidated gross revenues of the Company, and such Director shall not be considered to be independent until three years after falling below such threshold;
- (f) the direct or indirect acceptance by a Director of any consulting, advisory or other compensatory fee from the Company, other than Director (including chairman) and committee fees and pension or other deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service). Indirect acceptance includes acceptance of such a fee by an immediate family member of the Director or by an entity in which such Director is a partner, a member, or an officer such as a managing director occupying a comparable position or executive officer, or a person who occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Company;

- (g) a Director is an “Affiliated Person” of the Company; or
- (h) the Company beneficially owns five percent or more of any class of equity securities of an entity that is controlled by the Director or for which the Director is an executive officer.

For purposes of these determinations, the following relationships are presumed not to affect whether a Director will be considered to be independent:

- (i) the direct or indirect beneficial ownership by a Director of equity or other securities of the Company; provided that the Director does not have beneficial ownership, either directly or indirectly, of greater than five percent of any class of equity or other type of securities issued by the Company;
- (j) where the Director has a relationship of the type described in paragraphs (b), (e) and (h) above but is not deemed not to be independent in accordance with such paragraphs;
- (k) absent the specific application of any other independence standard, any relationship between the Company and an entity will be deemed not relevant to a Director who is a non-management director, advisor, consultant or a retired officer of such entity unless the Board determines otherwise;
- (l) where the Director is a director (including chairman of the board) of an entity that sells products and/or services that compete with the products and/or services sold by the Company and the competitive sales of the Company are less than five percent of the revenue of the Company in the most recently completed fiscal year;
- (m) the payment by the Company or the agreement by the Company to make payments, either directly or indirectly, to a charitable organization or educational organization of which the Director is an executive officer or director, if such payments do not exceed the greater of 2 percent of the charity or educational organization’s gross revenues and US\$1 million in any of the past three fiscal years.

Transition Rules

With respect to independence determinations made prior to November 4, 2004, the Board of Directors will apply the independence standards listed above by referring to the prior year, as opposed to the prior three year periods referred to above. After November 4, 2004, the Board of Directors will apply the independence standards with reference to the full three year periods referred to above.

Definitions

For purposes of these independence standards:

“Company” means Nortel Networks Corporation (or Nortel Networks Limited, as applicable), and its subsidiaries, and its parents, if any, that are required under United States generally accepted accounting principles to be consolidated with the financial statements of Nortel Networks Corporation (or Nortel Networks Limited, as applicable).

“affiliated person” of the Company mean a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company; where control is the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise. A person will not be deemed to be in control of a specified person if the person is not the beneficial owner, directly or indirectly, of more than 10 percent of any class of equity voting securities of the specified person and is not an executive officer of the specified person. An executive officer, general partner and managing member of an affiliate, as well as a director who is also an employee of an affiliate will also be deemed to be affiliates. Directors of Nortel Networks Corporation and Nortel Networks Limited, who have no other affiliation with the corporations other than their directorships, are deemed not to be affiliated persons by virtue of their directorships with both companies.

“executive officer” of an entity means a chair or vice-chair (where the person performs the function on a full-time basis), president, vice-president in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer of the entity or any of its subsidiaries performing a policy making function in respect of the entity and any other person who performs a similar function in respect of the entity.

“immediate family member” means a person’s spouse, parents, children, siblings, mothers, fathers, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than a domestic employee) who shares such person’s home.

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