

APPENDIX “NN”

Financial Statements of

**NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND**

December 31, 2007

NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND
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**NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND
Statement of Net Assets Available for Benefits**

**December 31, 2007
(in thousands of dollars)**

	<u>2007</u>	<u>2006</u>
INVESTMENTS (Note 3)		
Bonds and debentures		
Federal	\$ 22,284	\$ 26,841
Government Agencies	12,993	15,304
Provincial/Municipal	55,457	56,510
Corporate	7,977	13,354
	<u>98,711</u>	<u>112,009</u>
Cash (Indebtedness) and short-term investments	2,719	(94)
	<u>101,430</u>	<u>111,915</u>
ACCRUED INTEREST	1,232	1,471
DUE FROM SPONSORING COMPANY	40,643	42,518
	<u>41,875</u>	<u>43,989</u>
TOTAL ASSETS	143,305	155,904
ACCRUED CLAIMS PAYABLE (Note 2)	(7,508)	(6,107)
NET ASSETS AVAILABLE FOR BENEFITS (Note 5)	<u>\$ 135,797</u>	<u>\$ 149,797</u>

ON BEHALF OF NORTEL NETWORKS LIMITED

Wasim A. Haque

WASIM HAQUE - CONTROLLER, CANADA

NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND
Statement of Changes in Net Assets Available for Benefits
Year ended December 31, 2007
(in thousands of dollars)

	2007	2006
OPENING NET ASSETS AVAILABLE FOR BENEFITS	\$ 149,797	\$ 164,468
INCREASE IN NET ASSETS		
Contributions		
Sponsoring company	223	160
Employees	1,750	4,785
Investment income		
Interest	6,071	7,136
	8,044	12,081
DECREASE IN NET ASSETS		
Claims paid and accrued	19,956	23,661
Administration expenses	326	356
Unrealized Gain and Losses	1,762	2,735
	22,044	26,752
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	\$ 135,797	\$ 149,797

**NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND
Notes to the Financial Statements**

December 31, 2007

(all amounts in thousands of dollars)

1. DESCRIPTION OF THE FUND

The Health and Welfare Trust Fund (the "Fund") was established by Nortel Networks Limited (the "Administrator") on January 1, 1980 in order to fund the employee benefits program for all eligible employees of Nortel Networks Limited and its Canadian subsidiaries (collectively, the "Company") under the following plans:

Reserved plans (plans for which the Fund holds assets)

- (a) Long-term Disability Plan
- (b) Survivor Income Benefit Plan
- (c) Pensioners' Insurance Plan
- (d) Employee - financed Group Life Plan (Group Life - Part II)

Paid as Incurred Plans (to be reimbursed by Nortel Networks on an ongoing basis)

- (e) Dental Plan
- (f) Extended Health Plan
- (g) Group Life Plan (Group Life - Part I)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Fund are:

(a) Basis of presentation

Except as noted below, these financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for not-for-profit entities. As noted in Note 2(b), (c) and 4 below, the statements are presented at fair market value, with adjustments to the investments' fair value being presented as part of the Statement of Changes in Net Assets.

(b) Investments

Investments are recorded at market value, established by the closing sale price for a security on the recognized exchange on which it is principally traded. This value, together with accrued interest, approximates their market value.

**NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND
Notes to the Financial Statements**

December 31, 2007

(all amounts in thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Departure from Canadian GAAP

As of January 1, 2007 the new pronouncements from the Canadian Institute of Chartered Accountants (CICA) in respect of comprehensive income and financial instruments became effective. The application of these new standards resulted in the following insignificant difference between the Fund's statements and Canadian GAAP:

The straight line method was used instead of the effective interest method in calculating the amount of the unamortized bond premium/discount balance that needed to be written-off to equity at the beginning of the year. The statement of comprehensive income has been combined with the Statement of Changes in Net Assets Available for Benefits, in accordance with GAAP for not-for-profit entities, however that amount has been adjusted in the 2007 statements to include the amount written-off, which is not in accordance with GAAP.

(d) Financial Instruments

The CICA has issued pronouncements in respect of Financial Instruments – Disclosure and Capital Disclosure that will become effective for fiscal periods commencing after October 1, 2007. These pronouncements are concerned primarily with disclosure and the Company is assessing what impact, if any, they will have on amounts reported in its financial statements when adopted effective January 1, 2008.

(e) Accrued claims payable

Accruals are made for the unpaid claims incurred under the various plans to the year-end date. For experience rated plans, such as the Group Life Plans, premium expense is accrued to the year-end date and any experience gain or loss is reflected in the accounts when settled in the following calendar year. Accruals are not made for future payments in respect of claims received under benefit plans entailing a regular series of payments (Note 4(a)).

**NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND
Notes to the Financial Statements**

December 31, 2007

(all amounts in thousands of dollars)

3. INVESTMENTS

The purpose of the Fund is to fund the employee benefits program for all eligible employees of the Company.

The Fund's performance is subject to market and other risks. The maximum market and credit exposure of the Fund is represented by the fair value of the investments at that point in time. The Fair Values of the Investments are presented on the face of the financial statements. The related cost of investments, as at December 31, 2006 and 2007 are as follow (please see Note 2 (c) for departure from Canadian GAAP).

	<u>2007</u>	<u>2006</u>
<u>Bonds and debentures</u>		
Federal	\$ 15,375	\$ 20,034
Government Agencies	12,425	14,315
Provincial/Municipal	45,217	45,250
Corporate	6,786	11,741
	<u>\$ 79,803</u>	<u>\$ 91,340</u>
Cash (Indebtedness) and short-term investments	\$ 2,399	\$ (94)

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. An increase in interest rates is likely to decrease the fair value of the Fund's investments. The bonds and debentures have maturities up to June 2031 and coupon rates between 5.25% and 11.25%.

4. COMPARATIVE AMOUNTS

Due to the implementation of the basis of presentation as outlaid in note 2(c) above, comparative amounts for 2006 have been materially changed to reflect current accounting methodology. 2006 investment in bonds were increased by \$21,814 to reflect the market value of these investments. 2006 "change in unrealized gains" were increased by \$2,735 to reflect the decrease, year-over-year in the "unrealized gain and losses", and the balance of \$19,086 was added to "Opening Net Assets Available for Benefits".

In addition, the comparative figures in the statement of changes in net assets has been changed to exclude from sponsor company contributions and from benefits paid the amount relating to medical, dental and company paid group life, as these are not benefits for which the Fund has assets. In 2007, the Fund changed its policy to billing the sponsor company directly for the benefits paid on its behalf rather than recording benefits paid and a matching contribution. Accordingly 2006 contributions and benefits paid were reduced by \$38,128.