APPENDIX “PP”

Financial Statements of

NORTELNETWORKS
HEALTH AND WELFARE TRUST FUND

December 31, 2009

NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND
Table of Contents
December 31, 2009

NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND
Statement of Net Assets Available for Benefits
As of December 31, 2009 and 2008
(in thousands of dollars)

	2009	2008
INVESTMENTS (Note 3)		
Bonds and debentures		
Federal	$ 20,591	$ 22,384
Government Agencies	10,451	10,645
Provincial/Municipal	40,172	51,463
Corporate	4,871	4,518
	76,085	89,010
Cash and short-term investments	3,897	2,163
	79,982	91,173
ACCRUED INTEREST	961	1,119
GROUP LIFE INSURANCE SURPLUS (Note 5)	-	1,702
EMPLOYEE CONTRIBUTIONS	92	-
DUE FROM SPONSORING COMPANY (Note 4)	1,358	37,064
	2,411	39,884
TOTAL ASSETS	82,393	131,058
ACCRUED CLAIMS PAYABLE (Note 2)	(5,967)	(7,741)
NET ASSETS AVAILABLE FOR BENEFITS	$ 76,426	$ 123,317

Subsequent Event (Note 1)

See accompanying notes to the Financial Statements

NORTEL NETWORKS
HEALTH AND WELFARE TRUST FUND
Statement of Changes in Net Assets Available for Benefits
Year ended December 31, 2009, with Comparative Totals for the Year End December 31, 2008
(in thousands of dollars)

	2009	2008
OPENING NET ASSETS AVAILABLE FOR BENEFITS	$ 123,317	$ 135,796
INCREASE IN NET ASSETS		
Contributions		
Sponsoring company	95	173
Employees	1,583	2,066
Investment income		
Interest	5,654	7,548
	7,332	9,787
DECREASE IN NET ASSETS		
Claims paid and accrued	(23,891)	(20,641)
Change in Provision - Due from Sponsoring Company	(26,985)	-
Administration expenses	(291)	(304)
Bank Fees	(13)	(20)
Unrealized Losses	(3,043)	(1,302)
	(54,223)	(22,267)
Decrease in net assets for the year	(46,891)	(12,480)
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	$ 76,426	$ 123,317

See accompanying notes to the Financial Statements

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 provide a funding vehicle for the employee benefits programs 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 Limited on an ongoing basis)

(e) Dental Plan

(f) Extended Health Plan

(g) Group Life Plan (Group Life - Part I)

The Company oversees and manages the operation and administration of the Fund. Northern Trust ("Trustee") serves as the trustee of the Fund. The Fund was established as a health and welfare trust under the Income Tax Act.

The assets of the Fund are held with the Trustee, are under its responsibility and control, and are therefore, unavailable to the creditors of the Company.

<u>Creditor Protection Proceedings</u>

On January 14, 2009, after extensive consideration of all other alternatives, with the unanimous authorization of the Nortel's board of directors after thorough consultation with advisors, certain Nortel entities, including Nortel Network Corporation ("NNC") and Nor tel Networks Limited ("NNL"), initiated creditor protection proceedings in multiple jurisdictions under the respective restructuring regimes of Canada, the U.S., the U.K., and subsequently in Israel and France.

CCAA Proceedings

On January 14, 2009 ("Petition Date"), Nortel, NNL and certain other Canadian subsidiaries ("Canadian Debtors") obtained an initial order ("Initial Order") from the Ontario Superior Court of Justice ("Canadian Court") for creditor protection for 30 days, pursuant to the provisions of the

Companies' Creditors Arrangement Act ("CCAA"), which has since been extended to July 22, 2010 and is subject to further extension by the Canadian Court ("CCAA Proceedings"). There is no guarantee that the Canadian Debtors will be able to obtain court orders or approvals with respect to motions the Canadian Debtors may file from time to time to extend further the applicable stays of actions and proceedings against them. Pursuant to the Initial Order, the Canadian Debtors received approval to continue to undertake various actions in the normal course in order to maintain stable and continuing operations during the CCAA Proceedings.

As a consequence of the CCAA Proceedings, generally, all actions to enforce or otherwise effect payment or repayment of liabilities of any Canadian Debtor arising prior to the Petition Date and substantially all pending claims and litigation against the Canadian Debtors and their officers and directors have been stayed until July 22, 2010, or such later date as may be ordered by the Canadian Court. In addition, the CCAA Proceedings have been recognized by the United States Bankruptcy Court for the District of Delaware ("U.S. Court") as "foreign proceedings" pursuant to the provisions of Chapter 15 of the U.S. Bankruptcy Code, giving effect in the U.S. to the stay granted by the Canadian Court. A cross-border court-to-court protocol (as amended) has also been approved by the U.S. Court and the Canadian Court. This protocol provides the U.S. Court and the Canadian Court with a framework for the coordination of the administration of the Chapter 11 Proceedings (as defined below) and the CCAA Proceedings on matters of concern to both courts.

For further information on the CCAA Proceedings, see the annual report on Form 10-K of NNC for the year ended December 31, 2009.

Settlement Agreement with Former and Disabled Canadian Employee Representatives

On February 8, 2010, the Canadian Debtors reached an agreement on certain employment related matters regarding former Canadian Nortel employees, including Nortel's Canadian registered pension plans and benefits for Canadian pensioners and Nortel employees on long term disability ("LTD"). Nortel entered into a settlement agreement with court-appointed representatives of its former Canadian employees, pensioners and LTD beneficiaries, Representative Counsel, the Canadian Auto Workers' union and the Canadian Monitor ("Settlement Agreement"). The Settlement Agreement, as amended, was approved by the Canadian Court on March 31, 2010.

The Settlement Agreement provides, among other things, for the remainder of 2010, Nortel will continue to pay medical and dental benefits to Nortel pensioners and survivors and Nortel LTD beneficiaries in accordance with the current benefit plan terms and conditions. Life insurance benefits will continue unchanged until December 31, 2010 and will continue to be funded consistent with 2009 funding. Further, Nortel will pay income benefits to the LTD beneficiaries and to those receiving survivor income benefits and survivor transition benefits through December 31, 2010. The employment of the LTD beneficiaries will terminate on December 31, 2010. The parties have agreed to work toward a court-approved distribution, in 2010, of the assets of this Fund.

A charge in the maximum amount of $57 million against the Canadian Debtors' assets will be established as security in support of the payments to be made by Nortel under the Settlement Agreement, which amount will be reduced by the amount of payments made. The Settlement Agreement also sets out the relative priority for claims to be made in respect of the deficiency in the Fund. Under the Settlement Agreement, these claims will rank as ordinary unsecured claims in the CCAA Proceedings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), with certain exceptions, primarily for the purposes of providing financial information to the beneficiaries of the Health and Welfare Trust and to support the preparation and filing of the Nortel Networks Health and Welfare Trust tax return. These financial statements are expressed in Canadian dollars, have been prepared by management from internal data and are unaudited. Subsequent events have been reflected through June 1, 2010.

(b) Investments

Investments are recorded at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value for investments in the Trust is determined 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 fair value.

(c) 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 and any expected experience gain or loss is accrued to the year-end date. Accruals are made for incurred but not reported claims ("IBNR Claims") as of the balance sheet date. The estimate is based on a study of claims during the year and is specific to the type of benefit being provided.

(d) Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities. Actual results could differ from these estimates.

(e) Income recognition

Realized gains and losses on sale of investments of the Fund during the year are included in the statement of changes in net assets available for benefits as "Investment Income".

The change in the difference between fair value and the cost of the investments of the Fund at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as "Unrealized losses".

3. INVESTMENTS

(in thousands of dollars)

The purpose of the Fund is to fund the employee benefits programs 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. While Canadian GAAP requires use of the effective interest method in calculating the amount of the unamortized bond premium/discount balance, standard practice concerning the Health and Welfare Trust has been to utilize the mark to market method, which is an insignificant difference. The related cost of investments, as at December 31, 2009 and 2008 are as follows:

		2009		2008
Bonds and debentures				
Federal	$	**14,382**	$	14,382
Government Agencies		**10,500**		10,500
Provincial/Municipal		**32,623**		42,505
Corporate		**4,018**		4,018
	$	**61,523**	$	71,405
Cash and short-term investments	$	**3,897**	$	2,163

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%.

In response to the Settlement Agreement's term respecting distribution of assets in 2010, the Company made a decision to move the long-term bonds into shorter-term investments subsequent to December 31, 2009.

4. DUE FROM SPONSORING COMPANY

	2009	2008
Due from Sponsoring Company	$28,343	$37,064
Less: provision for doubtful accounts	(26,985)	-
Due from Sponsoring Company – net	$1,358	$37,064

The Due from Sponsoring Company gross balance of $28,343 ($37,064 – 2008) represents claims incurred by the Fund for Paid as Incurred Plans, as described in Note 1 above. The balance includes $26,985 in claims incurred and $1,358 in IBNR claims. The gross balance decreased $8,721 primarily as a result of $43,389 in funding to the Fund, partially offset by $35,510 of claims incurred.

Historically, there has been a time lag in the funding of claims incurred by the Fund which has resulted in an amount due from the Sponsoring Company. In 2005, Nortel undertook a valuation of the Fund to determine the funded status of the plans. As such, during that time it suspended contributions to the Fund for a period of 12 months, resulting in an increase in the Due from Sponsoring Company. Nortel resumed its funding of Paid as Incurred Plan claims in 2006.

As a result of the commencement of creditor protection proceedings by the Administrator, the Fund undertook an assessment of the collectability of the Due from Sponsoring Company balance. This assessment resulted in the recording of a reserve of $26,985. The $1,358 net balance represents IBNR Claims that, as reported, will be paid by the Administrator pursuant to the Settlement Agreement. At the instruction of Nortel management, the Trustee has filed a claim against the Administrator. This claim is a general unsecured claim, the recovery of which is dependent upon the recovery received by all other similarly situated creditors in the CCAA Proceedings.

5. GROUP LIFE INSURANCE SURPLUS

Annual financial results reflecting the actual group life experience for the plan year are prepared for the Pensioners Insurance Plan, the Employee-financed Group Life Plan (Group Life – Part II), and the Group Life Plan (Group Life – Part I). If the result is a surplus, the Fund receives a refund. If the result is a deficit, the Fund pays the deficit. At December 31, 2009, an estimated deficit for the Pensioners Insurance and Group Life – Part II Plans of $82 is recorded in Accrued Claims Payable. At December 31, 2008, an estimated refund for these same plans of $1,702 is recorded in Group Life Insurance Surplus.

6. FUTURE BENEFIT PAYMENTS AND RELATED RESERVES

As at December 31, 2009, the estimated present value of future obligations under the various benefit plans exceeded the value of reserved assets in the Fund. The unfunded status of the Reserved Plans at year end is shown below. Liability values are calculated using actuarial methodologies and assumptions in accordance with GAAP. Asset values include a pro rata allocation of Interest Income, Unrealized Gains/Losses, and 2009 Change in Provision based on the Plan's percent of total assets.

(a) Plans requiring a series of benefit payments

Certain plans entail a regular series of benefit payments to a claimant. The estimated present value of the future payments anticipated to be made after December 31, 2009 in respect of claims which commenced before that date and the related value of assets reserved in the Fund are as follows:

(in thousands of dollars)

	2009		2008	
	Present Value of Future Payments	Market Value of Reserved Assets	Present Value of Future Payments	Market Value of Reserved Assets
Long-term Disability Plan	$ 103,100	$ 15,742	$ 100,800	$ 30,653
Survivor Income Benefit Plan	19,600	12,105	22,800	17,056
	$ 122,700	$ 27,847	$ 123,600	$ 47,709

The interest rate assumption at December 31, 2009 and 2008 is 3.1% and 2.1% per annum, respectively. The actual benefit payments are charged against the Fund in the period in which they are paid.

(b) Plan requiring lump sum payments - Pensioners' Insurance Plan

The actuarial liability is $128,402 and $134,559 and the market value of the assets is $30,673 and $49,620 at December 31, 2009 and 2008, respectively. Therefore, there exists a deficit of $97,729 and $84,940 at December 31, 2009 and 2008, respectively. The interest rate actuarial assumption a t December 31, 2009 and 2008 is 6.09% and 7.37% per annum, respectively.

(c) Plan requiring lump sum payments - Group Life - Part II

Employees have the option to purchase additional group life insurance coverage up to age 65. This is fully employee funded, and the market value of the assets reserved at December 31, 2009 and 2008 totaled $17,906 and $25,988, respectively.