

Nortel Networks Oy (in Administration)

Administrators' statement of proposals

Pursuant to paragraph 49 of schedule B1 to the
Insolvency Act 1986

February 2009

Abbreviations

The following abbreviations are used in this report:

Administration	Refers to the Administration Orders granted by the High Court of England and Wales pursuant to schedule B1 of the Insolvency Act 1986. Providing a statutory moratorium over the Company and its assets under the control of its Administrators.
Administrators	Alan Robert Bloom, Alan Michael Hudson, Stephen John Harris and Christopher John Wilkinson Hill all of Ernst & Young LLP
bn	Billions
CALA	Caribbean and Latin America
Carrier	Nortel's 'Carrier Business' segment
CCAA	Companies' Creditors Arrangement Act, Canadian legislation.
Chapter 11	Chapter 11 is a chapter of the United States Bankruptcy Code
EC	European Commission
EMEA	Nortel companies operating in Europe, the Middle East and Africa
EMEA COMI companies	Certain EMEA companies subject to the Administration order date 14 January 2009.
Enterprise	Nortel's 'Enterprise Solutions' segment
EUR or €	Euro
GAAP	Generally Accepted Accounting Principles
ICT	Information, communication and technology
IP	Internet Protocol
IT	Information Technology
m	Millions
MEN	Metro Ethernet Networks
NGS	Nortel Government Solutions
NNC	Nortel Network Corporation
NNL	Nortel Networks Limited. Subsidiary of NNC and primary Canadian holding company for the Nortel Group

NN Oy	Nortel Networks Oy
NNUK	Nortel Networks UK Limited
Nortel Group	Nortel Networks Corporation and its subsidiary companies
PPF	the Pension Protection Fund
Proposals	The Administrators' proposals for achieving the purpose of the Administration
Rules	The Insolvency Rules 1986
SIP	Statement of Insolvency Practice
the Act	The Insolvency Act 1986
the Company	Nortel Networks Oy
The EC Regulation	The COUNCIL REGULATION (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings
US\$	United States Dollar- all figures are stated in US\$'s unless stated otherwise

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1. Introduction

Introduction

On 14 January 2009 NN Oy entered Administration and A Bloom, A Hudson, S Harris and C Hill were appointed to act as Administrators by order of the High Court of Justice of England and Wales, Chancery Division, Companies Court on the application of the Company's directors.

The EC Regulation applies to the Administration and the insolvency proceedings are the main proceedings. This means that this Administration is conducted according to English insolvency law although in certain situations, the EC Regulation will apply local law.

Administration is an English insolvency procedure designed to provide a company with temporary protection from its creditors in order to restructure its financial affairs or, otherwise, facilitate a better return to its creditors than would be possible if the company was to be liquidated immediately. **The Company continues to trade in the Administration process and is not in liquidation.**

This document, including its appendices, is the Administrators' statement of proposals to creditors pursuant to paragraph 49 of Schedule B1 to the Insolvency Act 1986 and Rule 2.33 of the Insolvency Rules 1986.

Certain statutory information relating to the Company and the appointment of the Administrators is provided at Appendix A.

Creditors' meeting

A meeting of the creditors of the Company has been called for 11.30am on 19 March 2009 at Holiday Inn, Helsinki Vantaa Airport, Ralssitie 2, Vantaa 01510 to enable creditors to consider and vote upon the Administrators' proposals and decide whether a creditors' committee should be formed.

If approved by a majority in value of those creditors attending and voting at the meeting the Administrators' proposals will become binding on all creditors, including those not present or represented at the meeting and upon those voting against the proposals. For this reason, it is important that you read this document carefully, and decide whether and how you wish to vote. A creditor is entitled to propose modifications to these proposals for consideration by the Administrators and creditors.

If these proposals are not approved, the Administrators must report the result to Court and may submit modified proposals to creditors at a further meeting.

The Administrators propose to make such payments from the assets of the Company to those creditors of the Company whose claims against the Company would be preferential under local law as they would receive in a liquidation of the Company under local law. Unless otherwise paid by the Administrators as a preferential claim, unpaid claims, debts and /or liabilities owed by the Company to its creditors as at 14 January 2009 will be dealt with in accordance with the rules governing the priority of claims as would be applicable if the Company were to be placed into liquidation under local insolvency law. The timing of any distribution to creditors shall be in accordance with the English insolvency legislation which is expected to provide payments to creditors in a much quicker timescale than would be achieved in liquidation under local law.

The Administrators consider that the proposals made within this report provide creditors of the Company with the best chance of maximising the outcome to creditors from the Administration by allowing the Company time to continue trading whilst restructuring options

are fully explored. If the proposals are not accepted by creditors, the return to creditors is likely to be significantly reduced.

In preparing this report, the Administrators have relied on information provided by the directors, management and other third parties. The Administrators' investigations are continuing and, accordingly, it has not been possible to verify all such information. Therefore, the Administrators take no responsibility for the completeness or accuracy of this information or otherwise.

This document was prepared in English and then translated into the language of the country of incorporation. In the event of a conflict between the two versions, the English version shall be the definitive version to rely upon

2. Background and circumstances giving rise to the appointment

Overview of the Nortel Group

The Nortel Group, originally founded in 1895 as Bell Telephone Company of Canada, is today a global supplier of telecommunications and computer networking solutions including hardware and software products and services. The Nortel Group employs approximately 24,000 people globally and provides end-to-end solutions for their customers from design, engineering and marketing, through to selling, installation and support for these network solutions.

NNC is the ultimate holding company of the Nortel Group and is listed on the Toronto Stock Exchange. NNL, a direct subsidiary of NNC, is the primary Canadian operating company and holding company for most of its 142 global subsidiary companies.

Nortel trades through geographical operating regions within which the 142 legal corporate entities sit. The primary geographical operating regions comprise United States, Canada, EMEA, Asia and CALA. Global revenue for the year ended 31 December 2007 was approximately US\$11bn of which 25% was generated by the EMEA region.

Summary financial information by business region is provided below.

	Year ended 31 December 2007 US\$m	9 months ended 30 September 2008 US\$m
United States	4,974	3,065
Canada	822	506
EMEA	2,740	1,801
Asia	1,768	1,876
CALA	644	451
Consolidated group revenue	10,948	7,699

Source Nortel Group

A summary Nortel Group structure chart is provided at Appendix B to this report.

Business Operations

The Nortel Group as a global supplier of both telecommunications and software networking solutions serves both Carrier customers (telecommunications companies) and Enterprise customers. The Nortel Group's research and development activities are conducted through ten "Centres of Excellence" globally and it also invests in approximately fifty technology innovation initiatives with more than twenty universities and has strategic alliances, partnerships and joint ventures with other leading organisations.

As at 31 December 2008, the Nortel Group principally operated through four business segments: Carrier, MEN, Enterprise and Global Services. The composition of global revenues by business segment, and a description of each, is set out below.

	Year ended 31 December 2007 US\$m	9 months ended 30 September 2008 US\$m
Carrier Networks	4,493	3,078
Enterprise Solutions	2,620	1,867
Global Services	2,087	1,559
Metro Ethernet Networks	1,525	1,022
Other	223	173
Consolidated group revenue	10,948	7,699

Source Nortel Group

Carrier Networks

Nortel's Carrier business segment provides wireless networking solutions that enable mobile telecommunications companies and cable TV operators to supply voice, data and multimedia communications services to individuals and enterprises via mobile telephones, personal digital assistants and other wireless computing and communications devices. This segment requires ongoing innovation through research and development to support the next generation of mobile device development by handset manufacturers and telecommunications companies.

Enterprise Solutions

The Enterprise Solutions segment provides communication solutions software and hardware that are used to build new telecommunications and IT networks and transform existing networks into more cost effective, IP standard networks. These networks support data, voice and multimedia communications, collectively described as "unified communications solutions". Nortel provides this to enterprise customers directly and through reseller partnerships.

Product includes the hardware (eg the telephone handsets, switches, routers, network security devices) and maintenance support services that companies need to establish and maintain their voice and data communication networks. Nortel's Enterprise activities are typically sold in conjunction with partners to provide a complete ICT solution.

Global Services

The Global Services Segment designs and installs infrastructure solutions sold by the Carrier, MEN and Enterprise Solutions divisions. The Global Services business specifically provides a broad range of network design, support and maintenance services to new and existing Nortel network equipment installations for Enterprise and Carrier customers. With effect from 1 January 2009, the Global Services segment has been fully integrated into the other three business segments.

Metro Ethernet Networks

The MEN business provides fixed line (including cable) networking solutions to telecommunications carriers and large enterprise customers. These fixed line products are used to make existing fixed line networks more scalable and reliable for the high speed delivery of diverse multimedia communications services. These include internet video, residential broadcast TV and video on demand, together with the new wireless broadband multimedia applications that require significantly increased bandwidth (capacity) requirements.

The EMEA Region

The EMEA region operates five types of company being:

- ▶ **Residual Profit Entities:** These are fully integrated operations in the sense that all relevant group functions sit within them as opposed to just marketing, distribution and sales. They derive revenue from distribution and sales of Nortel products, which will include customers outside their territory of incorporation. They also share in the control and funding of the Nortel Group's research and development effort. Residual Profit Entities are granted a licence to use the Nortel Group intellectual property via a licensing agreement with NNL.
- ▶ **Cost Plus Entities:** These are service companies with the responsibility for the marketing of Nortel products and customer relationship management in certain jurisdictions in return for a fee paid by NNL and other Nortel entities on a cost plus basis. In economic terms these are cost centres.
- ▶ **Limited Risk Entities:** These companies have responsibilities for distribution and sales to third party customers. Such customers are largely procured under a master customer agreement with other members of the Nortel Group, and in recognition of this fact the limited risk entities operate on a relatively small margin. In other words, the limited risk entities acquire products and pay licence fees to NNL and other Nortel group companies at a price which should leave them with a small operating profit. The Administrators are reviewing the financial and legal effects of this arrangement. Limited risk entities are granted a right to use the Nortel Group intellectual property, owned by NNL, without which they might be unable to trade. In economic terms the limited risk entities operate as revenue centres.
- ▶ **At Risk Entities:** These are also distribution and sales businesses but, unlike the Limited Risk Entities, do not rely upon the master customer agreements but rather assume responsibility for establishing a client base. Profitability depends upon its own performance. In economic terms these are profit centres.
- ▶ **Holding Companies:** These are companies which undertake no trading activities and solely act as a holding company for their subsidiaries.

The very nature and purpose of the five types of company and the trading arrangements between them means that the EMEA entities are heavily dependent on one another and are also unable to trade without the support of one another in the form of corporate services and without intellectual property licences provided and maintained by NNL in Canada.

A summary of the EMEA entities by type of company is provided in the table below.

Residual Profit Entity	Cost Plus Entity	Limited Risk Entity	At Risk Entity	Holding Company
NNUK	Nortel Networks Oy (Finland)	Nortel Networks N.V. (Belgium)	Nortel GmbH (Germany)	Nortel Networks International Finance & Holdings B.V. (Netherlands)
NN (Ireland) Limited	Nortel Networks Romania SRL	Nortel Networks S.p.A. (Italy)	Nortel Networks France S.A.S.	
Nortel Networks S.A. (France)	Nortel Networks AB (Sweden)	Nortel Networks B.V (Netherlands)	Nortel Networks Israel (Sales and Marketing) Limited	
	Nortel Networks O.O.O (Russia)	Nortel Networks Polska Sp. z. o. o. (Poland)		

Nortel Networks (Scandinavia) AS (Norway)	Nortel Networks Hispania, S.A. (Spain)
Nortel Networks Ukraine Limited	Nortel Networks (Austria) GmbH (Austria)
Nortel Networks South Africa (Proprietary) Limited	Nortel Networks s.r.o. (Czech Republic)
Nortel Telecom International Ltd (Nigeria)	Nortel Networks Engineering Service Kft (Hungary)
	Nortel Networks Portugal S.A
	Nortel Networks Solvensko, s.r.o. (Slovakia)
	Nortel Networks A.G. (Switzerland)

Within EMEA the main company is NNUK. NNUK is a Residual Profit Entity and a direct subsidiary of NNL, and itself directly or indirectly owns all but three of the EMEA companies, being the French entities (Nortel Networks S.A. and NN France S.A.S.) and Nortel Networks (Ireland) Limited.

NN Oy was incorporated in 1996 and operates as a 'cost plus entity' with 5 employees. The main role of NN Oy is to market Nortel products, manage customer relationships and undertake local training and product installation. NN Oy principal customer relationships are with other Nortel entities, but it also generates some local revenue.

Income received by NN OY primarily comes from other EMEA entities, predominantly Nortel Networks Ireland, NNUK and NNL. Income is calculated on a 'cost plus' basis which is billed to the group companies benefiting from NN Oy's services.

NN Oy is wholly reliant on the approval and authority levels of senior EMEA staff based in Maidenhead (England). In addition logistical support services for the business are also provided from Maidenhead including, but not limited to; human resources, finance, treasury, legal, top level sales and procurement guidance and approvals.

Summary financial information in respect of NN Oy is provided below.

Year ended	Type	Revenue €000	Operating income €000	Profit before tax €000	Net Profit after tax €000	Net Assets €000
31 December 08	Unaudited*	-	66	71	45	193
31 December 07	Audited	1,047	408	96	70	456
31 December 06	Audited	1,545	613	129	89	2,124
31 December 05	Audited	1,773	1,047	108	94	2,123

Source: For 31 December 2008 - Nortel management. For the years ended 31 December 2007, 2006 and 2005 from audited statutory accounts.

Note: * For the year ended 31 December 2008 the figures presented are unaudited and in accordance with US GAAP. For the years ended 31 December 2007, 2006 and 2005 figures are presented in accordance with local GAAP.

Circumstances giving rise to the appointment of the Administrators

The Nortel Group operates in a highly competitive industry which has experienced significant consolidation in recent years. The Nortel Group itself is loss making.

In recent years, costs have generally exceeded revenues, resulting in negative cash flow. A number of factors have contributed to these results, including competitive pressures in the telecommunications industry, an inability to sufficiently reduce operating expenses, costs related to ongoing restructuring efforts described below, significant customer and competitor consolidation, customers cutting back on capital expenditures and deferring new investments, and more recently the downturn in the global economy. The Nortel Group has also incurred material pension obligations, particularly to former employees in the United Kingdom (UK). The UK defined benefit pension deficit is the single largest creditor of NNUK. The funding obligation to meet the defined benefit pension deficit was guaranteed by NNL. Additional pension liabilities exist across the Nortel Group, the UK deficit being the most material. As such the Nortel Group has experienced a high cost structure and has had limited access to public markets due to below investment grade credit ratings.

In 2005, under the direction of new management, the Nortel Group adopted a Business Transformation Plan to address operational challenges, simplify organisational structure, and maintain a strong focus on revenue generation and improved operating margins including quality improvements and cost reductions. The Business Transformation Plan contemplated transformation of the Nortel Group business in six key areas including: services, procurement effectiveness, revenue stimulation (including sales and pricing), research and development, general administrative effectiveness, and organisational and workforce effectiveness.

Whilst progress was made, challenges mainly from the high cost structure and high debt levels (approximately US\$4.2bn), were compounded materially in recent months. As global economic conditions have dramatically worsened, the Nortel Group experienced significant trading pressure and faced a deterioration of cash and liquidity, globally as well as on a regional basis. This has largely been a consequence of customers across all businesses suspending, delaying and reducing their own capital expenditures. Market conditions have further restricted the Nortel Group's access to the capital markets. Access to capital markets became further compromised upon rating agencies issuing credit rating downgrades. In December 2008, Moody's issued a downgrade of the Nortel Group rating from B3 to Caa2. Between November 2008 and January 2009, the Nortel Group sought a sale of its business interests. Sale negotiations had not concluded at the time of the filings referred to below.

After extensive consideration of all other alternatives, the Nortel Group directors concluded that a comprehensive financial and business restructuring could be most effectively and quickly achieved within the framework of creditor protection proceedings in multiple jurisdictions. As a consequence, the Nortel Group sought creditor protection under the respective restructuring regimes of Canada, the U.S., and the U.K.. Nortel Group affiliates in Asia, including LG-Nortel, and in CALA, as well as the NGS business, are not included in these proceedings and are expected to continue to operate in the ordinary course.

On 14 January 2009 the directors of the Canadian entities applied for court protection under the CCAA. At the same time, the US entities filed for Chapter 11 proceedings with the United States Courts under the US Bankruptcy Code.

The structure of the Nortel Group (logistically, financially and in terms of management structure) is such that the EMEA entities are themselves very interdependent, but are also reliant upon the Nortel North American entities to trade in terms of continued use of the licence to use the NNL intellectual property.

Due to the interdependent nature of EMEA and the North American entities, upon the North America Filings being made, the directors of the EMEA entities made an application, pursuant to Article 3 of the EC Regulations, for Administration orders to be made.

As described above, the operations of the EMEA entities are controlled and managed on a day to day basis from the UK headquarters at Maidenhead, England. As such, the centre of

main interests (“COMI”) of the EMEA entities resides in England. In accordance with Article 3 of the EC Regulations, the Court of the EC member state in which the COMI is situated has jurisdiction to open insolvency proceedings. In the case of many Nortel EMEA entities, this means that the English High Court has jurisdiction to commence insolvency proceedings. The English High Court granted the director’s application for Administration orders in respect of the following entities; (“the EMEA COMI companies”)

<i>Legal Entity</i>	<i>Location</i>
Nortel Networks UK Limited	England
Nortel Networks S.A.	France
Nortel Networks France S.A.S.	France
Nortel Networks (Ireland) Limited	Ireland
Nortel Networks GmbH	Germany
Nortel Networks Oy	Finland
Nortel Networks Romania SRL	Romania
Nortel Networks AB	Sweden
Nortel Networks N.V.	Belgium
Nortel Networks S.p.A.	Italy
Nortel Networks B.V.	Netherlands
Nortel Networks International Finance & Holding B.V.	Netherlands
Nortel Networks Polska Sp. z.o.o.	Poland
Nortel Networks (Austria) GmbH	Austria
Nortel Networks s.r.o.	Czech Republic
Nortel Networks Engineering Service Kft	Hungary
Nortel Networks Portugal S.A.	Portugal
Nortel Networks Hispania S.A.	Spain
Nortel Networks Solvensko s.r.o.	Slovakia

Applications for Administration Orders were presented to the English High Court of Justice, and Administration Orders were subsequently made at 8pm (GMT) on 14 January 2009. As such, the Administrators were thereby appointed by the High Court to manage the Company’s affairs and to pursue the purposes of the Administration Order.

Separate proposals have been prepared for each of the EMEA COMI companies and will be circulated to their creditors for their review and to be voted upon.

It should be noted that of the remaining EMEA entities (i.e. those excluding the EMEA COMI companies which are subject to Administration Orders), only Nortel Networks Israel (Sales and Marketing) Limited has filed for insolvency protection in its own country of incorporation. At the time of this report, no other Nortel EMEA company is in any insolvency process and all companies continue to trade as normal.

3. Purpose, conduct and end of Administration

Purpose of the Administration

The purpose of an Administration is to achieve one of three objectives:

- a. rescuing the Company as a going concern; or
- b. achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up; or
- c. realising the property in order to make a distribution to one or more secured or preferential creditors.

English insolvency legislation provides that objective (a) should be pursued unless it is not reasonably practicable to do so or if objective (b) would achieve a better result for the Company's creditors as a whole. Objective (c) may only be pursued if it is not reasonably practicable to achieve either objective (a) or (b) and can be pursued without unnecessarily harming the interests of the creditors of the Company as a whole.

The EMEA Administration orders were made in order to facilitate a global restructuring of the Nortel Group. During the period of the Administration, the Administrators will work closely with the North American entities, themselves operating under respective restructuring processes, to achieve this goal. On this basis the Administrators are seeking to achieve objective (a) above, rescuing the Company as a going concern. Should the Administrators conclude that the primary objective of rescuing the Company as a going concern is not capable of being achieved, the Administrators will only then propose pursuing the objective (b) above, achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up.

Conduct of the Administration

Since the English High Court made the EMEA Administration orders on 14 January 2009, the Administrators have been working with the management of the Nortel Group, globally, to assist in the stabilisation and maintenance of business operations. This has included communicating with suppliers to ensure that supplies continue uninterrupted so to enable the Nortel Group to meet its customer requirements. In addition the Administrators have been communicating with the customer base to address their questions in respect of the Administration process and to ensure that trade continues as normal.

At the time of writing this report, we are pleased to report that both the suppliers and customers continue to trade with the Nortel Group with a view to supporting Nortel in its restructuring.

The Administrators have sought to ensure that the employees of the Company, and indeed all EMEA entities under Administration, are kept fully informed on the progress of the restructuring process and will continue to provide relevant information to both the employees and their representatives.

Decision to continue to trade and future conduct of the Administration

The Administrators have commenced a review of the financial position of the EMEA entities, together with the preparation of cash flow, trading forecasts and assets and liability positions, with the interests of each company's creditors in mind. The Administrators will continue to review the trading position throughout the period of Administration to ensure that assets of the companies are not unduly dissipated and that the decision to continue trading remains in the best interests of each company's creditors.

On the basis that the intellectual property of the Nortel Group is owned by NNL in Canada, and that the future interests of EMEA and North America are so interdependent, the

Administrators have established a regular dialogue with both the North American management as well as the US Chapter 11 and Canadian CCAA responsible parties to ensure that the interests of the EMEA companies and their respective creditors are represented and taken into account in the restructuring and /or any sales process initiated in North America.

Should the Administrators' proposals not be approved and the Company ceases to trade, the likely recovery to creditors will be restricted to the break up valuation of trade receivables, available free cash balances held, stock and intra-group receivables. The amount realised for such assets for the benefit of creditors will be significantly impacted by counterclaims made by customers, low recoverability of the value of stock and the financial ability of each of the Nortel Group entities that owe an intra-group debt to pay what it owes to NN Oy. Certain of these intra-group balances will be irrecoverable as the status of NN Oy's claim to the recovery of such debt is subordinated to the full satisfaction of local external creditors in certain European jurisdictions. Should a global restructuring of the Nortel Group be achieved the recovery to creditors is likely to be significantly above the level achievable in a liquidation.

Future conduct of the Administration

The Administrators will continue to manage the affairs, business and property of the Company for the purpose of rescuing the Company as a going concern or achieving business/asset disposals as appropriate.

The end of the Administration

Please see section 4 'Future Conduct of the Administration', for details of the way in which the Administration may be brought to an end.

4. Future Conduct of the Administration

The Administrators propose that:

Continued Trading

- A. The Administrators shall continue to manage the Company's business, affairs and property during the period of the administration whilst the possibilities for a global restructuring of the Nortel business and/or a global sale of all or part of the Nortel business (together defined as the "Global Restructuring") are considered, progressed and given effect to by the Company if appropriate;
- B. Whilst the Global Restructuring is considered, progressed and given effect to as appropriate, the Company shall continue trading and paying its suppliers and employees in full as an expense of the administration from the assets of the Company in respect of goods or services supplied to the Company after 14 January 2009 for so long as the Company shall require such goods or services.
- C. The Administrators shall continue to monitor the cash and asset position of the Company and the general progress and prospects of the Global Restructuring in order to be satisfied that it may still be possible to rescue the Company as a going concern and /or achieve a sale of all or part of the Company's business as part of the Global Restructuring and that it is appropriate that the Company should continue to trade rather than cease to trade and /or be placed into liquidation. Should the Administrators decide that it is in the best interests of creditors generally that the Company should cease trading and that its assets should be realised for distribution to creditors, this will be reported by the Administrators to the creditors of the Company as soon as possible.
- D. In the event that the Administrators decide that a Global Restructuring is not in the best interests of creditors or that the cost of continuing to trade is no longer in the best interests of creditors, the Administrators shall seek to achieve a better result for creditors of the Company as a whole than would be likely if the Company were wound up, by seeking to realise the best price for the business and/ or assets of the Company as is obtainable in the circumstances, and they shall take steps to enable the assets of the Company to be distributed to its creditors.

Payments to Creditors

- E. Payments to unpaid creditors out of the Company's assets shall be made as follows.
 - (1) Provided that they consider the making of such payments is likely to assist achievement of the purpose of the administration, the Administrators may make such payments from the assets of the Company from time to time to those creditors of the Company whose claims would be preferential under local law as they would receive in a liquidation of the Company under local insolvency law.
 - (2) Unless otherwise paid by the Administrators under the previous paragraph, any assets of the Company available for distribution to creditors in respect of unpaid claims, debts and /or liabilities owed by the Company to its creditors as at 14 January 2009 may be dealt with in accordance with the rules governing the priority of claims as would be applicable if the Company were to be placed into liquidation under local insolvency law.
 - (3) In order to make payments under local law to creditors whose claims as at 14 January 2009 remain unpaid, the Administrators may (after provision for or payment of the expenses of the administration) make proposals for

approval by creditors for a company voluntary arrangement under Part 1 of the English Insolvency Act 1986 or a scheme of arrangement under section 899 of the English Companies Act 2006 on the basis that such an English arrangement would allow the Administrators to make payments to creditors more quickly than would be possible were such payments to be made in a liquidation of the Company under local law.

General

- F. The Administrators shall do all such other things and generally exercise all of their powers as Administrators, as they in their discretion consider desirable or expedient, in order to achieve the purpose of the Administration and/ or to protect and preserve the assets of the Company or to maximise realisations of those assets, or for any other purpose incidental to these proposals.
- G. The Administrators shall invite the creditors to consider establishing and, if thought fit, establish a creditors' committee to assist the administrators in carrying out their functions.
- H. The Administration shall continue for such period as is necessary to achieve the purpose and, if necessary, make applications to the court to extend the term of the Administration beyond the one year statutory term.
- I. The Administrators shall engage advisors as appropriate.
- J. At the end of the Administration, the Administrators shall be discharged from liability pursuant to paragraph 98(1) Schedule B1 to the Act in respect of any action of theirs as Administrators at a time determined by the court.
- K. The Administrators shall consult with the creditors' committee, if established, at appropriate intervals concerning the conduct of the Administration and the implementation and development of these proposals and the approval of the Administrators' professional fees.
- L. The Administrators' professional fees shall be fixed by reference to the time properly spent by them and their staff on matters arising in the Administration.
- M. The Administrators shall be paid their professional fees on account on a monthly basis of 80% of time charged as agreed by a creditor's committee (should one be formed) in accordance with rule 2.106 of the Insolvency Rules 1986. The remaining 20% per month shall be agreed by subsequent resolution of the committee/ creditors/ court.

Voting

The creditors will be asked to vote upon the following matters at the initial meeting of creditors (in person or by proxy):

- ▶ The approval of the Administrators' proposals for achieving the purpose of Administration (as modified, as applicable); and
- ▶ The formation of a creditors' committee.

5. Statement of Affairs

At the time of this report, the directors are continuing to prepare a statement of affairs. The Administrators believe that it would prejudice the conduct of the Administration of the Company to make full disclosure of the Statement of Affairs in view of the fact that a restructuring of the Nortel Group is being pursued which may ultimately necessitate the sale of certain businesses or assets. Consequently, an order for limited disclosure is being sought from the High Court of England & Wales pursuant to Rule 2.30.

Notwithstanding, we provide in Appendix C, for information, the 31 December 2008 draft unaudited balance sheet for the Company. In addition, we provide below, by way of summary information, an indication of the current position with regard to creditors' claims. The figures have been compiled by management and have not been subject to independent review or statutory audit and thus are subject to change.

Secured creditors

The Company has no secured creditors.

Preferential creditors

All employees have been paid for the initial 14 days of January and therefore have no arrears of wages outstanding.

Preferential claims shall be recognised in accordance with local law.

Non-preferential creditors

The creditors currently identified in the unaudited Balance Sheet at 31 December 2008 may include some preferential creditors in addition to non-preferential creditors. No exercise to require creditor claims to be submitted and formally agreed for dividend purposes has yet commenced, or is planned for the foreseeable future.

Prescribed part

The prescribed part is a proportion of floating charge assets set aside for unsecured creditors pursuant to section 176(A) of the Insolvency Act 1986. The prescribed part applies to floating charges created on or after 15 September 2003. There are no floating charges granted by the Company. As such, the prescribed part does not apply in this Administration.

6. Administrators' remuneration and disbursements

Remuneration

The statutory provisions relating to remuneration are set out in Rule 2.106 of the Rules. Further information is given in the Association of Business Recovery Professionals' publication "*A Creditors' Guide to Administrators' Fees*", a copy of which may be accessed from the web site of the Insolvency Practitioners Association at <http://www.insolvency-practitioners.org.uk> (follow 'Regulation and Guidance' then 'Creditors' Guides to Fees'), or is available in hard copy upon written request to the Administrators.

It is likely that a creditors' committee will be formed in the Administration, in which case the Administrators will ask the committee to determine the basis of the Administrators remuneration and will consult and agree with the committee, from time to time, on the quantum to be drawn.

The Administrators propose to ask the committee for payment on a monthly basis of 80% of time charged in the previous month as agreed by the creditor's committee in accordance with rule 2.106 of the Insolvency Rules 1986. The residual 20% per month would be agreed by subsequent resolution of the committee.

Details of the Administrators' time costs and charge out rates will be provided to the committee as the approving body. Details of amounts drawn will be provided to creditors in subsequent progress reports.

In the event that a creditors' committee is not formed, the Administrators will conduct a creditors' meeting by correspondence to fix the basis of remuneration and the arrangements for drawing it and will provide the appropriate information to creditors with an invitation to vote.

At Appendix E is a statement on the Administrators' charging policy in respect of remuneration.

Disbursements

Appendix E also includes a statement of the Administrators' policy for charging disbursements.

Other professionals

The Administrators have engaged Herbert Smith LLP to provide legal services and will from time to time engage other advisors in respect of other matters pertaining to the Administration.

7. Other matters

Administrators' receipts and payments

The Administrators' Receipts and Payments Account for the period 15 January 2009 to 13 February 2009 for NN Oy is attached at Appendix D.

Appendix A Statutory and other information

Company information

Registered number: 10391404
Company name: Nortel Networks Oy
Registered office address: Arabianranta 6, 00560, Helsinki, Finland
Previous names: Bay Networks Finland Oy

Details of the Administrators and of their appointment

Administrators: AR Bloom, AM Hudson, SJ Harris and CJW Hill of Ernst & Young LLP, 1 More London Place, London, SE1 2AF
Date of appointment: 14 January 2009
By whom appointed: The appointment was made by the High Court of Justice, Chancery Division, Companies Court on the application of the Company directors
Court reference: High Court of Justice, Chancery Division, Companies Court - case 545 of 2009
Division of the Administrators responsibility: Any of the functions to be performed or powers exercisable by the administrators may be carried out/exercised by any one of them acting alone or by any or all of them acting jointly

Statement Concerning the EC Regulation

The EC Council Regulation on Insolvency Proceedings does apply to this administration and the proceedings are main proceedings. This means that this Administration is conducted according to UK insolvency legislation and is not governed by the insolvency law of any other European Union Member State.

Share capital

Class	Authorised		Issued & Fully paid	
	Number	€	Number	€
Ordinary	100	8,500	100	8,500

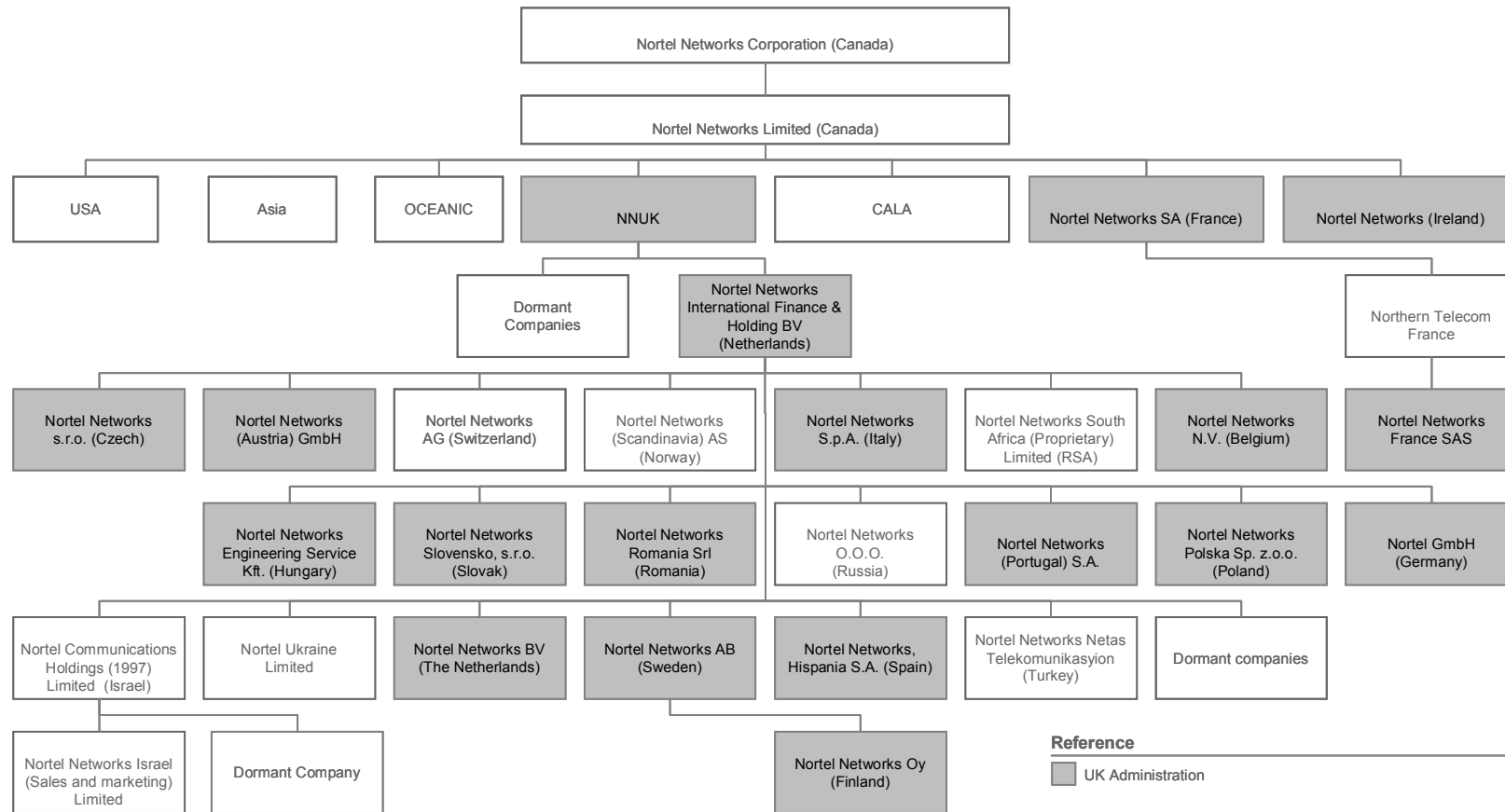
Shareholder

Nortel Networks International Finance & Holdings B.V. – 100%

Directors (current and for the last three years) and company secretary (current)

Name	Director or secretary	Date appointed	Date resigned	Current shareholding
Rob Haitisma	Director	05/02/2003	14/01/2009	-
Sharon Rolston	Director	15/08/2006	-	-
Joe O'Connor	Director	15/02/2007	14/01/2009	-
Simon Freemantle	Director	14/01/2009	-	-
Gordon Davies	Director	14/01/2009	-	-
BDO - corporate secretary	Secretary	n/a	-	-

Appendix B Summary Corporate Structure



Appendix C Statement of Affairs

The Administrators believe that it would prejudice the conduct of the administration of NN Oy to make full disclosure of the Statement of Affairs in view of the fact that a restructuring of the Nortel Group is being pursued which may ultimately necessitate the sale of certain businesses or assets. Consequently, an order for limited disclosure is being sought from the High Court of England & Wales pursuant to Rule 2.30.

However a management draft unaudited balance sheet as at 31 December 2008 has been included below. All balances are stated in US\$ and in accordance with US GAAP accounting.

Consolidated draft and unaudited balance sheet as at 31 December 2008

Assets	US\$'000	Liabilities	US\$'000
Total cash & equivalent	83	Notes and accounts payable	10
Intercompany and related party receivables	281	Trade and other payables	(132)
Trade receivables		Payroll and benefit-related liabilities	(156)
Net inventories	1	Contractual liabilities	
Prepaid expenses	150	Restructuring	-
Other current assets	49	Other accrued liabilities	(21)
Other	-	Income taxes payable	(36)
Current assets	564	Intercompany interest payable	
		Long-term debt due within one year	
Pension assets		Deferred income taxes	
Deferred charges		Current liabilities	(335)
Long term receivables			
Total investments		Long-term pension liability	
Long term intercompany receivables		Restructuring	
Net plant & equipment	43	Other long-term provisions	
Deferred income taxes		Long term intercompany payables	
Intangibles amortization		Total deferred income	
Other intangibles		Long term debt	
Goodwill		Deferred income taxes	
Non-current assets	43	Non-current Liabilities	-
Total assets	607	Total liabilities	(335)

Source: Unaudited management information

At the time of this report, the Administrators and the directors are in the process of reviewing the balance sheet to understand the current position.

Notes

1. It should be noted that the underlying value of certain assets, in particular intergroup receivables and other related company balances, will have been impacted as a result of the North American filings.
2. Given the adoption of US GAAP for presentation purposes, accrued liabilities may include amounts for deferred revenue that will not constitute a claim on the estate and accruals within inventory may not relate to actual inventory to be realised.

Appendix D: Administrators' receipts and payments account for the period from 15 January 2009 to 13 February 2009

Note 1	Spot rate	1 USD =	0.776	
	Account currency	Total EUR	Total US\$	
Note 2	Statement of Affairs	Opening balance	40,093	51,636
	Estimated to realise	Receipts		
	-	- Intercompany settlements	100,000	128,790
			100,000	128,790
		Payments		
	-	- Bank charges and interest	(122)	(157)
	-	- Salaries and wages	(29,398)	(37,862)
	-	- Pension	(7,587)	(9,771)
	-	- Tax	(2,201)	(2,834)
	-	- Legal fees	(9,721)	(12,519)
	-	- Other	(80)	(103)
			(49,107)	(63,245)
		Closing balance	90,985	117,180
		Account reconciliations		
		Current account	90,985	117,180
		Local deposit account	-	-
		Admin deposit account	-	-
			90,985	117,180

Note 1

Local accounts have all been converted into a common local currency in addition to US using January month end spot rates provided by the Company.

Note 2

At the time of this report, the directors are continuing to prepare a Statement of Affairs. The Administrators believe that it would prejudice the conduct of the administration to make full disclosure of the Statement of Affairs in view of the fact that a restructuring of the Nortel Group is being pursued which may ultimately necessitate the sale of certain businesses or assets. Consequently, an order for limited disclosure is being sought from the High Court of England & Wales pursuant to Rule 2.30.

Cash on appointment

There was cash on appointment held in a Euro account which totalled US\$52k when converted at January month end spot rates.

Receipts

Total receipts up to 13 February 2009 equate to US\$129k. This relates to a funds transfer received from Nortel Networks (Ireland) Limited.

Payments

Total payments up to 13 February 2009 equate to US\$63k. This primarily relates to salary payments totalling US\$38k in addition to legal fees incurred of US\$13k.

Appendix E Statement of Administrators' charging policy for remuneration and disbursements pursuant to Statement of Insolvency Practice No. 9

Charging and disbursement policy

Administrators' charging policy for remuneration

The size and complexity of the assignment has necessitated that the Administrators put in place a team of Ernst & Young LLP personnel including specialists in taxation, systems and IT, HR, communications and corporate finance, as well as core restructuring personnel. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Work carried out by all staff is subject to the overall supervision of the Administrators.

All time spent by staff working directly on case-related matters is charged to a time code established for the case. Each member of staff has a specific hourly rate, which is subject to change over time. Where the Administrators utilise the services of specialist departments within the Administrators' firm such as tax, these departments may charge time, spent as and when the Administrators require their advice. These rates will vary and may exceed those of the Administrators' core staff. The hourly out rates for the Administrators' core staff will be provided to creditors at the creditors' meeting and to all creditors in future correspondence. These rates are local market rates applicable to the Company's location. In addition, there is some involvement of UK based staff at the locations.

It is likely that a creditors' committee will be formed in the Administration, in which case the Administrators will ask the committee to determine the basis of the Administrators remuneration and will consult and agree with the committee, from time to time, on the quantum to be drawn.

The Administrators will be requesting payment on a monthly basis of 80% of time charged as agreed by the creditor's committee in accordance with rule 2.106 of the Insolvency Rules 1986. The residual 20% per month to be agreed by subsequent resolution of the committee.

Details of the Administrators' time costs and charge out rates will be provided to the committee as the approving body. Details of amounts drawn will be provided to creditors in subsequent progress reports. The rates used by the Administrators may periodically rise over the period of the Administration. Any sizeable amendments to these rates will also be advised to the creditors' committee (if formed) or alternatively, the body of creditors in the statutory progress reports.

In the event that a creditors' committee is not formed, the Administrators will conduct a creditors' meeting by correspondence and will provide the appropriate information to creditors with an invitation to vote.

Administrators' charging policy for disbursements

Statement of Insolvency Practice No. 9 divides disbursements into two categories.

Category 1 disbursements are defined as specific expenditure relating to the Administration of the insolvent's affairs and referable to payment to an independent third party. Such disbursements can be paid from the insolvent's assets without approval from the Creditors' Committee or the general body of creditors. In line with Statement of Insolvency Practice No. 9, it is our policy to disclose Category 1 disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as may reasonably be required to support the disbursements drawn but not seek approval for their payment.

Category 2 disbursements are charges made by the office holder's firm that include elements of shared or overhead costs. Statement of Insolvency Practice No. 9 provides that such disbursements are subject to approval as if they were remuneration. We do not intend to charge Category 2 disbursements in this case.