

NORTEL NETWORKS CORPORATION
AUDIT COMMITTEE MANDATE

Reporting to the Board of Directors, the Audit Committee shall be responsible for assisting in the Board of Directors' oversight of the reliability and integrity of the accounting principles and practices, financial statements and other financial reporting, and disclosure principles and practices followed by management of the Corporation and its subsidiaries. The Committee shall also assist the Board of Directors in its oversight of (i) the qualifications, independence and performance of the independent auditors of the Corporation, (ii) the establishment by management of an adequate system of internal controls and procedures, (iii) the effectiveness of the internal controls and procedures, and (iv) the compliance by the Corporation with legal and regulatory requirements.

The Committee shall be composed of not less than three Directors of the Corporation, none of whom are officers or employees of the Corporation or any of its affiliates, and all of whom are "independent" 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. In addition, the Committee composition, including the qualifications of its members, shall comply with the applicable requirements of 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. The Board of Directors will consider the appropriateness of the application of any applicable stock exchange guidelines or recommendations regarding the composition of the Committee.

Regular meetings of the Committee may be held at such time or times as the Board of Directors, the Chairman of the Board, or the Committee Chairman may determine and special meetings of the Committee may be called by, or by the order of, the Chairman of the Board, the Committee Chairman, or any member of the Committee. In accordance with the *Canada Business Corporations Act* (the "Act"), the independent auditors may also call a meeting of the Committee. The independent auditors shall receive notice of every meeting of the Committee and the independent auditors are entitled to attend and participate in such meetings. The Committee shall meet periodically in executive session, without members of management present. The Committee Chairman, or an alternate Committee member, shall provide a report on each Committee meeting to the Board of Directors and minutes of Committee meetings shall be prepared and circulated to the Board of Directors. The Committee's report to the Board of Directors shall include any issues that arise with respect to the quality or integrity of the financial statements, the compliance of the Corporation and its subsidiaries with legal or regulatory requirements, the performance and independence of the independent auditors, or the performance of the internal audit function of the Corporation and its subsidiaries.

The Board of Directors, after consideration of the recommendation of the Committee, shall nominate the independent auditors for appointment by the shareholders of the Corporation or, if appropriate, recommend the removal by the shareholders of the then current independent auditors and replacement with new independent auditors, so recommended, all

in accordance with applicable law and applicable stock exchange requirements. The independent auditors shall report directly to the Committee and are ultimately accountable to the Committee and the Board of Directors as the representatives of shareholders of the Corporation.

In carrying out its responsibilities, the Committee shall have the following specific oversight duties:

- a) review, at least annually, the performance of the independent auditors, and annually recommend to the Board of Directors, for approval by the shareholders, the appointment of the independent auditors of the Corporation (and, if applicable, the removal of the then current independent auditors) in accordance with the Act, and review and approve the terms of the annual audit engagement;
- b) review, and engage in an active dialogue with the independent auditors on, the independent auditors' written statement confirming their relationships with the Corporation and their independence from the Corporation, and either confirm to the Board of Directors that the independent auditors are independent in accordance with applicable regulations or recommend that the Board of Directors take appropriate action in response to the independent auditors' written statement to enable the Board of Directors to satisfy itself of such independence;
- c) discuss with management and the independent auditors the timing and process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner;
- d) approve and, at least annually, review compliance with the hiring policies for employees and former employees of the independent auditors;
- e) at least annually, review a report by the independent auditors describing: the audit firm's internal quality-control procedures; any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities of the firm, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues;
- f) review and pre-approve, or adopt appropriate procedures or delegations of authority to pre-approve, all audit and non-audit services to be provided by the independent auditors in accordance with the requirements of applicable law, and the requirements of 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, and in view of the policy adopted by the Board of Directors with respect to the provision of services by the independent auditors on April 25, 2002;
- g) review and approve, at least annually, the overall scope of the independent auditors' annual audit program and the internal audit annual (and, if applicable,

periodic) audit program, including any special audit steps adopted in light of material control deficiencies, if any, existing from time to time;

- h) obtain assurances from the independent auditors that their audit was conducted in a manner consistent with the applicable standards for the conduct of an audit in accordance with Canadian and United States generally accepted auditing standards;
- i) periodically review the adequacy of internal controls established by management, including receiving reports from management of any significant deficiencies in the design or operation and/or major issues in the adequacy of internal controls and evidence of fraud, whether or not material, that involves management or other employees who have a significant role in the internal controls and, where appropriate, make recommendations or reports thereon to the Board of Directors;
- j) periodically review the status and findings of the independent auditors' audit program and the internal audit program;
- k) receive and review reports and communications from the internal auditors and the independent auditors (including as required by applicable statements of auditing standards), and review management's response and actions taken to remedy any identified weaknesses or deficiencies identified in such reports and communications, including any audit problems or difficulties encountered in performing the audit and management's response, and resolve disagreements between management and the independent auditors;
- l) discuss with management, at least annually, the guidelines and policies utilized by management with respect to risk assessment and risk management and the major financial risk exposures and the steps to monitor and control such exposures;
- m) review major issues regarding accounting principles and financial statement presentation, including any significant changes in the selection or application of accounting principles to be observed in the preparation of the accounts of the Corporation and its subsidiaries, or in their application;
- n) review a report from the independent auditors, in connection with any audited financial statements, describing all critical accounting policies and practices used, all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of alternative disclosures and treatments and the treatment preferred by the independent auditors, and any material written communications between the independent auditors and management, such as any management representation or other letter, internal control letter, or schedule of unadjusted differences;

- o) review analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles on the financial statements, and the effect of regulatory or accounting initiatives, as well as off balance-sheet structures, on the financial statements of the Corporation;
- p) review and discuss the annual and quarterly financial statements with the independent auditors and management, and, following such discussion, recommend to the Board of Directors, approval of audited annual consolidated financial statements of the Corporation and of its pension plans and such other financial statements of the Corporation required to be approved by the Board of Directors;
- q) review and monitor practices and procedures adopted by management to assure compliance with applicable laws and the requirements of the applicable stock exchanges, including reporting, disclosure and officer certification requirements under applicable corporate and securities laws and the applicable requirements of stock exchanges on which the Corporation's securities are listed related to financial performance and, where appropriate, make recommendations or reports thereon to the Board of Directors;
- r) review with management for recommendation to the Joint Leadership Resources Committee, the appointment of the chief financial officer and other key financial executives involved in the financial reporting processes and procedures of the Corporation and its subsidiaries, including the Controller and the General Auditor;
- s) review the annual performance assessment of the Vice-President, Audit completed by the Chairman of the Committee and the Chief Executive Officer and the annual performance self-assessment completed by the Vice-President, Audit;
- t) periodically, but not less than quarterly, (and at any time in response to a specific request by management, the independent auditors, or the internal auditor), meet separately with management, the independent auditors, and/or the General Auditor, in a manner that facilitates separate independent communication with the Committee, with respect to such matters as the effectiveness of the system of internal controls established by management, the adequacy of the financial reporting processes and procedures, the quality and integrity of the financial statements, the evaluation of the performance of the independent auditors and any other matter that may be appropriate;
- u) periodically and not less than annually, receive and review a report on the insurance programs in place for the Corporation and its subsidiaries;

- v) review, with the independent auditors where appropriate, public disclosure documents containing material audited or unaudited financial information, including earnings press releases, prospectuses, annual and quarterly reports on Form 10-K and Form 10-Q, financial statements, management's discussion and analyses of financial condition and results of operations, as well as financial information and the earnings guidance provided to analysts and rating agencies generally and, where appropriate, make recommendations or reports thereon to the Board of Directors;
- w) prepare such reports of the Committee as may be required by any applicable law or stock exchanges or other securities regulatory authorities to be included in the proxy circular and statement or any other public disclosure document of the Corporation and review the disclosure to be contained in the proxy circular and statement or any other public disclosure document of the Corporation of the services performed and the fees paid to the independent auditor;
- x) periodically review the activities and business practices followed by senior management so as to assess compliance with appropriate corporate policies and the Code of Business Conduct and to address any deficiencies in such compliance;
- y) discuss with the Chief Legal Officer periodically any significant legal, compliance, or regulatory matters that may have a material effect on the financial statements or the business of the Corporation or on the compliance policies of the Corporation, including material notices to or inquiries received from governmental agencies; and
- z) establish and maintain procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters and receive periodic reports with respect thereto.

In discharging its duties and responsibilities, the Committee may direct that the independent auditors or internal auditors examine or consider a specific matter or area and report to the Committee on the findings of such examination. The Committee may direct the independent auditors or internal auditors to perform supplemental reviews or audits as the Committee deems desirable. The Committee may also conduct such examinations, investigations or inquiries, and engage such special legal, accounting or other advisors on the terms and conditions, including fees, as the Committee considers appropriate, to conduct or assist in the conduct of such examinations, investigations or inquiries. The Corporation shall provide appropriate funding, as determined by the Committee, for payment of compensation and fees to the external auditors, any advisors employed or retained by the Committee and the ordinary administrative expenses of the Committee that are necessary or appropriate for the Committee to carry out its duties. The Committee may request any officer or employee of the Corporation or any of its

affiliates or the legal advisors or independent auditors for the Corporation or any of its affiliates to attend a meeting of the Committee or to meet independently with any members of, or advisors to, the Committee.

The Committee shall review and assess the adequacy of the Committee mandate annually, report to the Board of Directors on the results of such assessment, and recommend any proposed changes to the Board of Directors for approval. The Committee shall also conduct an annual evaluation of the performance by the Committee of its responsibilities in accordance with the Committee mandate, and such evaluation shall be conducted in such manner as the Committee deems appropriate. The Committee shall report the results of its performance evaluation to the Board of Directors and such report may be an oral report by the Committee Chairman or by any other member of the Committee designated by the Committee to make the report.

While the Committee has the responsibilities and powers set forth in this mandate, it is not the duty of the Committee to plan or conduct audits, to prepare or audit financial statements, to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or to design or implement an effective system of internal controls. Such matters are the responsibility of management, the internal auditors and the independent auditors, as the case may be. Nor is it the duty of the Committee to conduct investigations or to assure compliance with applicable accounting standards, laws and regulations and the Code of Business Conduct.

Effective June 29, 2005