



## Nortel Networks Limited Series 5 Preferred Share Conversion Notice

Dear Shareholder:

You have the right to convert, effective on December 1, 2006, all or any of your Series 5 Preferred Shares into Series 6 Preferred Shares of Nortel Networks Limited on a one-for-one basis. If you wish to do so, your right of conversion must be exercised by the deadline indicated below. If your right of conversion is **not** exercised by such deadline, you will retain your Series 5 Preferred Shares and receive a floating rate dividend as described in the attached **Notice of Conversion Privilege**. In that case, you will have the opportunity to convert your Series 5 Preferred Shares into Series 6 Preferred Shares again on December 1, 2011 and every 5 years thereafter.

The attached Notice of Conversion Privilege explains how the dividends are computed on the Series 5 Shares and would be computed on the Series 6 Preferred Shares. It also explains how you may exercise your conversion privilege. Shareholders should also note that Nortel Networks Limited has determined that the "Selected Percentage Rate", for purposes of computing the annual fixed dividend rate applicable to the Series 6 Preferred Shares, is 80%. This rate will be multiplied by the yield on five-year Government of Canada bonds, as of November 10, 2006, to determine the annual fixed dividend rate applicable to the Series 6 Preferred Shares for the five-year period ending November 30, 2011. See the attached Notice of Conversion Privilege for details.

Any **registered shareholder** who wishes to convert all or any of his or her Series 5 Preferred Shares must complete and sign the conversion panel contained on the back of his or her Series 5 Preferred Share certificate and deliver it, **at the latest by 5:00 p.m. (Toronto time) on November 17, 2006**, to Computershare Trust Company of Canada as indicated in paragraph 3 of the attached Notice of Conversion Privilege. Shareholders who are **beneficial owners** (i.e., their Series 5 Preferred Shares are registered in the name of their broker or other nominee) and who wish to exercise their right of conversion should communicate with their broker or other nominee and follow their instructions and act in the time frame advised so as to provide enough time for their broker or other nominee to meet the November 17, 2006 deadline for registered shareholders.

Should you require advice as to how your dividends will be calculated and paid as of December 1, 2006 and whether to exercise your conversion privilege, please contact your broker or other investment advisor. If you cannot locate your share certificate or have any questions about the steps to be followed, please contact Computershare Trust Company of Canada at 1-800-834-9814.

Yours sincerely,

Katharine B. Stevenson  
Treasurer

**NORTEL NETWORKS LIMITED**  
**NOTICE OF CONVERSION PRIVILEGE**  
**TO ALL HOLDERS OF CUMULATIVE REDEEMABLE**  
**CLASS A PREFERRED SHARES SERIES 5**  
**OF NORTEL NETWORKS LIMITED**

NOTICE IS HEREBY GIVEN THAT:

1. Holders of Cumulative Redeemable Class A Preferred Shares Series 5 of Nortel Networks Limited (the "Series 5 Preferred Shares") have the right to convert all or part of their shares, effective on December 1, 2006, on a one-for-one basis into Cumulative Redeemable Class A Preferred Shares Series 6 of Nortel Networks Limited (the "Series 6 Preferred Shares").
2.  **Holders not wishing to convert or who do not comply with the instructions set out in paragraph 3 or 4 below by the appropriate deadline will, subject to paragraph 7 below, retain their Series 5 Preferred Shares and, accordingly, will continue receiving a floating rate dividend as described in paragraph 5 below.** However, but subject to paragraph 7 below, on December 1, 2011, and every 5 years thereafter, holders of both Series 5 Preferred Shares and Series 6 Preferred Shares will have the right to convert their shares into shares of the other series.
3. **Registered holders** electing to convert all or part of their Series 5 Preferred Shares into Series 6 Preferred Shares must complete and sign the conversion panel on the back of their Series 5 Preferred Share certificate and deliver it, **at the latest by 5:00 p.m. (Toronto time) on November 17, 2006**, to one of the following offices of Computershare Trust Company of Canada:

**Toronto**

**By Registered Mail, Hand  
or by Courier:**  
100 University Avenue  
9<sup>th</sup> Floor  
Toronto, ON M5J 2Y1  
Attention: Corporate Actions

Telephone: 1-800-834-9814

**Montreal**

**By Hand:**  
650 de Maisonneuve Blvd. W.  
Suite 700  
Montreal, Quebec H3A 3S8  
Attention: Corporate Actions

**By Registered Mail or by  
Courier:**  
1500 University Street  
Suite 700  
Montreal, Quebec H3A 3S8  
Attention: Corporate Actions

Delivery may be done in person or by courier or registered mail. However, if share certificates are delivered by courier or registered mail, shareholders must ensure that they are sent sufficiently in advance so that they are received by Computershare Trust Company of Canada by the above-mentioned deadline. **The method of delivery of share certificates is at the option and risk of the shareholder.** Neither Nortel Networks Limited nor Computershare Trust Company of Canada accepts any liability for the failure to deliver share certificates by the above-mentioned deadline or the delivery of share certificates to an address other than indicated above.

4. **Beneficial owners** of Series 5 Preferred Shares should communicate with their broker or other nominee and follow their instructions if they wish to convert all or part of their shares into Series 6 Preferred Shares. Beneficial owners should follow such instructions and act within the time frame indicated to them so as to provide enough time for their broker or other nominee to meet the November 17, 2006 deadline for registered shareholders.
5. The Series 5 Preferred Shares pay a monthly floating dividend based on a dividend rate that may fluctuate over time between 50% and 100% of the average prime rate of two Canadian banks for each day of the month, computed in accordance with Nortel Networks Limited's Restated Articles of Incorporation ("Prime"). The holders of Series 5 Preferred Shares are entitled to receive floating adjustable cash dividends as and when declared by the Board of Directors of Nortel Networks Limited, paid on the twelfth day of the month next following their declaration. The dividend rate is adjusted upwards or downwards on a monthly basis by an Adjustment Factor (as described below) whenever the Calculated Trading Price, being the market price of the Series 5 Preferred Shares computed in accordance with Nortel Networks Limited's Restated Articles of Incorporation, is \$24.875 or less or \$25.125 or more, respectively. The Adjustment Factor for a month is based on the Calculated Trading Price of the Series 5 Preferred Shares for the preceding month determined in accordance with the following table:

<u>If the Calculated Trading Price for the preceding month is</u>	<u>The Adjustment Factor as a percentage of Prime shall be</u>
\$25.50 or more than \$25.50	-4.00%
Greater than or equal to \$25.375 and less than \$25.50	-3.00%
Greater than or equal to \$25.25 and less than \$25.375	-2.00%
Greater than or equal to \$25.125 and less than \$25.25	-1.00%
Greater than \$24.875 and less than \$25.125	Nil
Greater than \$24.75 and less than or equal to \$24.875	+1.00%
Greater than \$24.625 and less than or equal to \$24.75	+2.00%
Greater than \$24.50 and less than or equal to \$24.625	+3.00%
\$24.50 or less than \$24.50	+4.00%

The maximum Adjustment Factor for any month is  $\pm 4.00\%$ .

Based on the foregoing, the annual floating dividend rate for any month is the rate expressed as a percentage per annum (rounded to the nearest one-thousandth of one percent) equal to: (a) Prime for such month, multiplied by (b) the Designated Percentage for such month, with the Designated Percentage being the Adjustment Factor for such month plus the Designated Percentage for the preceding month, provided that the annual floating dividend rate applicable for a month will in no event be less than 50% of Prime or greater than 100% of Prime. The annual floating dividend rate for November 2006 is 100% of Prime.

6. As of December 1, 2006, the Series 6 Preferred Shares, if issued, will pay, on a quarterly basis, as and when declared by the Board of Directors of Nortel Networks Limited, a fixed cash dividend for the following 5 years based on an annual fixed rate equal to the product of: (a) the yield to maturity compounded semi-annually (the "Government of Canada Yield") carried by Government of Canada non-callable bonds with a 5-year maturity as computed as at 10:00 a.m. (Toronto time) on November 10, 2006 by RBC Dominion Securities Inc. and TD Securities Inc., multiplied by (b) the "Selected Percentage Rate". **The "Selected Percentage Rate" determined by Nortel Networks Limited is 80%.** The annual dividend rate applicable to the Series 6 Preferred Shares will be published on November 15, 2006 in the national edition of the Globe and Mail, the Montreal Gazette and La Presse. Nortel Networks Limited will apply to list the Series 6 Preferred Shares on The Toronto Stock Exchange, if it determines that any Series 6 Preferred Shares are issuable.
7. After November 17, 2006, if Nortel Networks Limited determines that there would be less than one million Series 5 Preferred Shares outstanding after the conversion date (December 1, 2006), then all remaining Series 5 Preferred Shares will automatically convert into Series 6 Preferred Shares on December 1, 2006. However, if Nortel Networks Limited determines that there would be less than one million Series 6 Preferred Shares outstanding after the conversion date, then no Series 5 Preferred Shares will be converted into Series 6 Preferred Shares.
8. For more details, please refer to the short form prospectus dated November 14, 1996 of Northern Telecom Limited (as Nortel Networks Limited was then known) relating to the issue of the Series 5 Preferred Shares. If you would like to receive a copy of this prospectus, please submit your request to the Corporate Secretary at the following address:

Nortel Networks Limited  
195 The West Mall  
Toronto, Ontario  
M9C 5K1

Attention: Corporate Secretary

## **INSTRUCTIONS WITH RESPECT TO SIGNATURES FOR REGISTERED HOLDERS**

- Except as indicated below, the signature of registered holders in the conversion panel must correspond to the name as written upon the face of the share certificate in every particular without any change whatsoever.
- If the share certificate(s) or stock power(s) are executed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation, partner or other representative of a partnership or other person acting in a fiduciary or representative capacity, such person should so indicate when signing, must give his or her full title in such capacity, and must submit evidence satisfactory to Computershare Trust Company of Canada of his or her authority to so act.
- In the case of a transfer, the conversion panel must be completed and signed by the purchaser(s). The share certificate must be endorsed and properly completed, or be accompanied by an appropriate stock power to transfer securities, signed and properly completed by the registered owner(s). The signature(s) on such endorsement or stock power must correspond exactly to the name(s) of the registered holder(s) as appearing on the share certificate and must be Medallion Guaranteed by an Eligible Institution, as defined below. The signature of the purchaser(s) in the conversion panel must also be Medallion Guaranteed by an Eligible Institution, as defined below.
- Signatures hereby required to be Medallion Guaranteed, as indicated above, must be guaranteed by an "Eligible Institution". An "Eligible Institution" means a Canadian Schedule I chartered bank, a major trust company in Canada, a member of the Securities Transfer Agents Medallion Program (STAMP), a member of the Stock Exchange Medallion Program (SEMP) or a member of the New York Stock Exchange Inc. Medallion Program (MSP). Members of these programs are usually members of recognized stock exchanges in Canada and the United States, members of the Investment Dealers Association of Canada, members of the National Association of Securities Dealers or banks and trust companies in the United States.
- Nortel Networks Limited or its transfer agent may, in their discretion, require additional evidence of authority or additional documentation.

**DATED** at Toronto, this 17<sup>th</sup> day of October, 2006.

**NORTEL NETWORKS LIMITED**



Gordon A. Davies  
General Counsel – Corporate  
and Corporate Secretary