

ACTING with *Integrity*

*Northern Telecom's
Code of Business Conduct*

NORTEL
NORTHERN TELECOM

N O R T E L ' S C o r e V a l u e s

We create superior value for our customers.

We work to provide shareholder value.

Our people are our strength.

We share one vision. We are one team.

We have only one standard – excellence.

We embrace change and reward innovation.

We fulfill our commitments and act with integrity.

“ As an operating principle, we will conduct our business honestly and ethically wherever we operate in the world. Acting with integrity builds credibility — that fragile,

ACTING with Integrity

intangible asset that's so hard to gain, so easy to lose, and so difficult to regain. Ethical conduct is the way we protect our credibility as a company, establish respect for the dignity of every individual, earn the trust of our partners and customers, and define the character of our business.”

Jean C. Monty,
President and
Chief Executive Officer

At Northern Telecom (Nortel), we recognize the importance of credibility, integrity and trustworthiness to our success as a business. We are committed to upholding high ethical standards in all our operations, everywhere in the world. We believe in the principles of honesty, fairness, and respect for individual and community freedoms.

Living up to both the letter and the spirit of this commitment is not always an easy task. As a large and diverse corporation working globally, we recognize that while there is some level of agreement the world over on what constitutes honest and ethical business practice, there can also be valid differences of opinion.

In our working lives, we often experience situations where the “right thing to do” is not immediately apparent. Loyalties — to our fellow employees, to managers, customers and suppliers, to our families, our communities, the environment, the corporation as a whole, and to ourselves — may seem to conflict. When we're faced with a complicated situation, it can be difficult to decide where the ethical path lies.

The standards and expectations outlined in Nortel's *Code of Business Conduct* are intended as a guide to making the right choice.

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Core Values: A Guide to Ethical Business Practice

We must all take leadership in ethical decision making. In most situations, our personal values and honesty will guide us to the right decision. But in our capacity as employees and representatives of Nortel, we must also always consider how our actions affect the integrity and credibility of the corporation as a whole. Our decisions as to what is ethical business practice in a Nortel context must be guided by the seven Core Values that form the fundamental basis of our conduct as a business.

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Nortel maintains high ethical standards in all its customer relationships, and upholds the Core Value: "We fulfill our commitments and act with integrity."

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Shareholders, employees, customers, and suppliers are not the only stakeholders in Nortel activities — the corporation has broader social obligations as well. A global corporation faces a special challenge: to uphold consistent corporate standards of ethical business conduct, while also respecting the culture and varying business customs of every community and country in which it operates. Nortel's responsibilities as a global citizen include:

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Nortel's ability to live up to its commitments and ethical standards is directly dependent on the day-to-day choices and actions of everyone who does business in the corporation's name. While no book of hard-and-fast rules could ever adequately cover all the dilemmas people face, Nortel does have some firm expectations relating to

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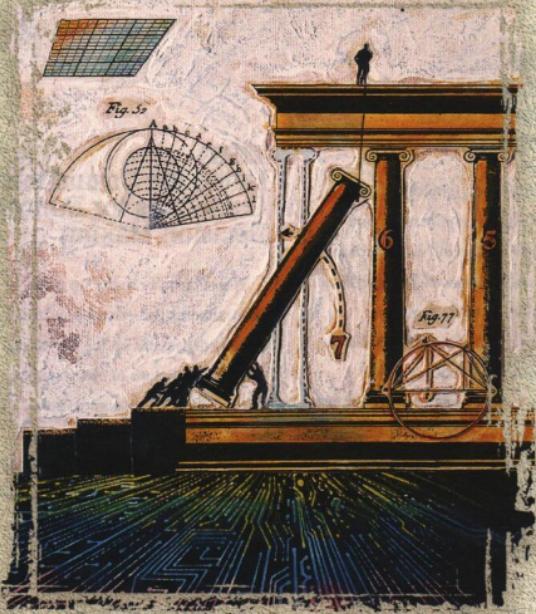
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Core Values:

A Guide to Ethical Business Practice

New ways of organizing people and work within the corporation are giving each of us more decision-making responsibility. Given the complexity and constantly changing nature of our work and our world, no book of hard-and-fast rules — however long and detailed — could ever adequately cover all the dilemmas people face. In this context, every Nortel employee is asked to take leadership in ethical decision making.

Personal Values and Corporate Integrity

In most situations, our personal values and honesty will guide us to the right decision. But in our capacity as employees and representatives of Nortel, we must also always consider how our actions affect the integrity and credibility of the corporation as a whole. Our business ethics must reflect the standard of conduct outlined in this document — a standard grounded in the corporation's values, and governing Nortel's relationships with all stakeholders.

Our decisions as to what is ethical business practice in a Nortel context must be guided by the seven Core Values that form the fundamental basis of our conduct as a business (see inside front cover). From these statements stem a series of commitments that we as Nortel employees make to each other, to shareholders, customers, suppliers, and the communities in which we do business.

A Shared Responsibility

The final core value emphasizes our intention to fulfill our commitments and to do so with integrity. Integrity means "wholeness" — it means that all the parts are aligned and work together.

It means, for example, that each individual within the corporation is doing his or her best to live by the standard of business conduct outlined in this *Code*.

"Acting with integrity" also means that while we may not always be sure of every answer, we will not say one thing and then do another. We will not make promises that we have no intention of keeping or cannot be reasonably sure we will be able to keep. We will strive to the best of our ability to support all the commitments that the corporation has made to conducting business in an honest and ethical manner.

Putting the Values to Work: Ethical Commitments

The following pages take a more in-depth look at what it means to put these values to work in our business. The section entitled "Living the Commitments: Guidelines for Ethical Decision-making" outlines your role in enabling the corporation to meet its commitments to stakeholders and maintain its ethical standards. When individuals choose to disregard the *Code*, we all could suffer from damage

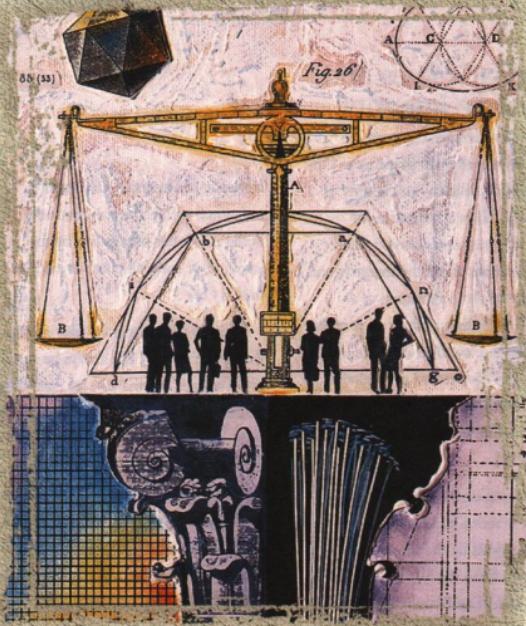
to the corporate reputation and the ensuing loss of customers, community and employee goodwill, and profitability. Serious violations of the standards may result in termination of employment. Actions that are against the law may be subject to criminal prosecution.

You have a personal responsibility to make sure that all your words and actions live up to these statements.

You have a responsibility to ask questions when you have doubts about the ethical implications of any given situation or proposed course of action.

You have a responsibility to report any concerns about business practices within the corporation that may violate this *Code of Business Conduct*.

(See the inside back cover of this booklet to find out how to report an ethical concern.)



*C*ommitments

to Nortel Stakeholders

This section outlines some of the key commitments that Nortel makes to those with the most direct stake in the organization: its employees, shareholders, customers and suppliers. It contains a lot of statements beginning with "Nortel commits..." or "the corporation will...." Remember that the ethical conduct of "the corporation" is really the collective conduct of its employees, officers, and members of its board of directors. Later on in the document ("Living the Commitments") you'll find more specific guidelines on your role in making these statements more than just words.

Employees

Nortel values the contributions of all its employees and treats each individual with respect. This includes safeguarding the confidentiality of employee records; respecting employee privacy — refraining from unnecessary intrusions; and supporting as far as possible employees' work-related aspirations. As a corporation, Nortel is committed to informing employees quickly and fully on issues affecting them, and listening to their ideas and concerns.

The corporation strives to provide work that is satisfying and a work environment that is safe and pleasant. Wherever it operates in the world, the corporation offers salaries and benefits that are competitive and fair. The corporation provides employees with opportunities for continuing professional development.

In its hiring practices, Nortel will be fair and equitable. Nortel seeks to create a work force that is a reasonable reflection of the diverse populations of the communities in which it operates. When the realities of the highly competitive global marketplace make it necessary for the corporation to downsize or phase out particular areas of business, Nortel will respect the dignity of affected employees and ensure they are treated appropriately.

Nortel is committed to protecting and enhancing the health and safety of its employees.

Shareholders

Profits are essential to the continued existence of the corporation and to the well-being of all who depend on it. The corporation seeks to provide value to shareholders, while maintaining financial prudence. Nortel believes that shareholder value is delivered through satisfied and loyal customers, and that customer satisfaction is directly dependent on satisfied and effective employees.

The corporation endeavors to act in what it perceives to be the shareholders' best interest, and informs them of major actions or decisions in a timely manner, in accordance with applicable laws.

resources in research, design, and development of telecommunications products and services.

The corporation maintains high ethical standards in all of its customer relationships, and upholds the Core Value: "We fulfill our commitments and act with integrity."

Suppliers

Nortel is fair in its choice of suppliers and honest in all business interactions with them. Purchasing decisions are made on the basis of such criteria as competitive price, quality, quantity, delivery, service, and reputation. The ethical and environmental standards and practices of suppliers also influence purchasing decisions. The objective is to procure those materials and services which will contribute most to the quality of products and the long-term benefit of the corporation.

Remember that the ethical conduct of "the corporation" is really the collective conduct of its employees, officers, and members of its board of directors.



Ethical Leadership in the Global Community

Employees, shareholders, customers, and suppliers are not the only stakeholders in Nortel's activities. Corporations have social obligations that extend beyond the payment of taxes, employment of people, and provision of goods and services. A global corporation faces a special challenge: to uphold consistent corporate standards of ethical business conduct, while also respecting the culture and varying business customs of every community and country in which it operates. This section looks at the broader responsibilities of the corporation as a global citizen.

Respect for National and Local Priorities

Nortel's policies take into account the social aims and economic priorities of each country in which it does business. Wherever it operates, the corporation abides by all national and local laws.

Local Communities

Nortel directly and through its employees contributes to the general well-being and improvement of the towns, cities, and regions where it has manufacturing plants, laboratories, offices, or other facilities. When feasible, it also provides financial support to worthwhile community programs in such areas as social welfare, health, education, arts and culture. It encourages employees to participate in local public affairs, charitable organizations, and other community activities of their choice.

The long-term interests of the community also influence such business decisions as the selection of sites for new facilities. The corporation encourages the recruitment of qualified local personnel and local purchasing of materials and services where practical. Nortel does not condone the use of enforced labor nor of child labor, and encourages its suppliers to respect this principle as well.

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Relationship to the Political Process

Nortel does not abuse corporate power to influence public issues — nor does it become involved in unethical political activity. It does, however, express its views on local and national issues which affect its operations. The corporation respects and supports the right of all employees to participate in the political process. However, it does not reimburse employees for personal political contributions, nor does it permit employees to campaign on company time or property.

Nortel supports the political process as a corporation — by, for example, making limited contributions to political parties or candidates in jurisdictions where it is legal and customary to do so. All such contributions are reported to the corporation's auditors.

Protection and Enhancement of the Environment

Nortel is committed to being a leader in protecting and enhancing the environment. Wherever Nortel does business, it takes the initiative to develop innovative solutions to environmental issues that may arise because of its products, operations, and business activities.

Nortel subscribes to the principle of product stewardship, and is working towards taking responsibility for the environmental impacts of products throughout their lifecycle — from design to final disposition. Its Environmental Management System Standard sets minimum requirements for sound environmental management practices. Specific measurable goals have been established for the corporation worldwide.

Nortel is working with customers, suppliers, industry associations, educational institutions, public interest groups, and governments throughout the world to promote the development and dissemination of innovative solutions to industry-related environmental problems.

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Competition

Competition is the cornerstone of a vibrant economy. Nortel competes vigorously in an ethical and legitimate manner. It avoids all actions which are anti-competitive or otherwise contrary to laws that govern competitive practices in the marketplace.

Nortel and its employees refuse to associate with or participate in illegal practices such as price-fixing schemes, bid-rigging arrangements, resale price maintenance schemes, or exclusive dealings.

Nortel employees do not denigrate competitors and their products, but do, with care and prudence, make fair and factually based comparison on attributes such as price and performance. They do not improperly seek competitors' information.

Support to the International Scientific Community

Where knowledge of product and manufacturing technology can be shared without harming Nortel's competitive position in the marketplace (nor contravening national restrictions on transfer of technology), Nortel will engage in technology cooperation projects with industry and industry associations around the world.

Accountability

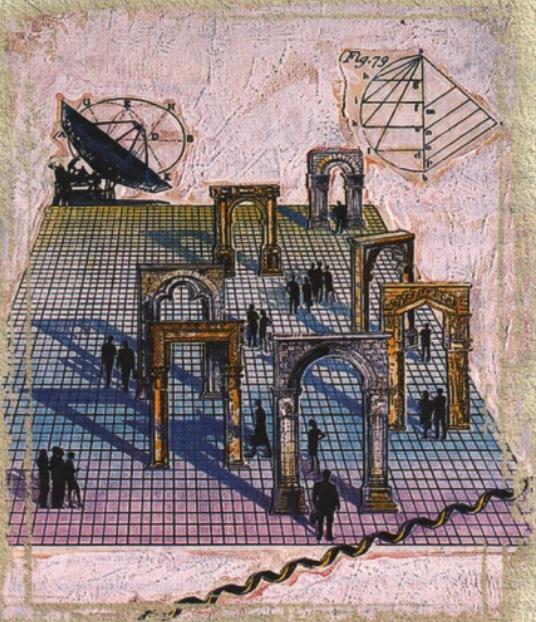
All business transactions must be accurately and completely accounted for and reported on the books and records of the corporation. All travel and expense claims submitted by Nortel employees must be justified and accurate.

Nortel strives to meet reasonable requests for information. The corporation voluntarily publishes reports on its environmental activities

and performance, and shares information about its business ethics standards. It maintains close and honest relationships with the financial community and the media, regularly and willingly informing them about significant developments (subject to applicable laws regarding disclosure). It provides accurate and complete information in a format that is meaningful and easy to understand.

Some information, however, must remain confidential in order to protect the corporation's competitive position and to comply with applicable agreements and laws. Proprietary information such as trade secrets, product plans, financial information prior to public disclosure, our technology, and software code often falls in the category of company property that must be protected. For more on proprietary information, see "Protecting Assets" on page 16.

Competition is the cornerstone of a vibrant economy. Nortel competes vigorously in an ethical and legitimate manner.



Living the Commitments:

Guidelines for Ethical Decision Making

Nortel's ability to live up to its commitments and ethical standards is directly dependent on the day-to-day choices and actions of each employee, officer and member of the board of directors. This section outlines the standard of ethical practice expected from everyone who does business in the corporation's name.

Our Common Working Environment

Each employee has responsibility for creating and sustaining a pleasant, secure, and productive working environment — an environment in which all employees and contractors are treated fairly and with respect.

We must all strive to communicate our ideas and concerns in an honest and clear manner. We must make sure that our criticisms are both direct and constructive, and accept candid feedback from others in the same spirit. Developing our ability to resolve problems and work effectively as team members is an important and ongoing challenge.

Respect for the differences in backgrounds, experiences, perspectives, and talents that each individual employee brings to the team is a fundamental value. Nortel does not tolerate discrimination, harassment or demeaning behavior against any individual or group. We recognize that there are differences

among individuals and groups that go well beyond race and gender, and we are committed to the principle of inclusiveness in its broadest sense. We all must learn to understand individual differences, and see how together they contribute to the creation of more innovative ideas and of better solutions to problems. It is important that we make the effort to discover how our own skills and perspectives can support this process, and to recognize our personal areas for development.

Our responsibilities to other employees also include ensuring that we do our part in maintaining corporate environmental, health and safety standards in our own workplace. One important component of health and safety standards concerns illegal drugs. Any Nortel employee found using, selling, or in possession of illegal drugs on company property will be subject to immediate termination of employment.

Q My manager keeps making embarrassingly personal remarks to me and asking me out to social events outside of work hours. I consistently refuse these invitations, and have made it clear that these attentions are not welcome—but it doesn't seem to make any difference. Is this sexual harassment?

What should I do about it?

A Yes it is sexual harassment. You should report the matter directly to Human Resources or the Business Ethics function. For more information on Nortel's sexual harassment policy, contact your local Human Resources department.

Relationships with Customers

Our credibility with our customers depends on our ability to fulfill our commitments. Every time a Nortel employee commits to an unrealistic timetable, some hard-earned customer trust is lost. We must not make promises unless we are reasonably confident that we will be able to keep them. All sales and promotional efforts must be free from deliberate misrepresentation. If unforeseen circumstances do make it impossible to meet a commitment, we will let the customer know as soon as possible.

Many Nortel employees deal primarily with "internal customers"—that is, other Nortel employees, functions or units. These principles apply equally to these important customer relationships.

Our commitment to fair competition and high ethical standards forbids us from such inappropriate practices as refusing to sell, service, or maintain equipment because the customer is also buying products from our competitors. This commitment also prevents us from offering to customers any benefits or rewards that violate applicable laws or responsible and generally accepted business practices. In practical terms, this means that customer entertainment is limited to what is reasonable and necessary to facilitate business discussions. Any gifts made to customers must be modest promotional items. (For more details on business gifts and entertainment, see page 20.)

Nortel employees must respect and protect any confidential or proprietary information shared with us by a customer. We should not hesitate to let our customers know, in a respectful way, that we expect them to protect our confidential and proprietary information as well.

Relationships with Suppliers

Our commitment to dealing fairly and honestly with suppliers means that employees responsible for buying or leasing materials and services on behalf of the corporation must consciously and consistently guard their objectivity. In practice, this means that no employee will accept or solicit any benefit from a supplier or potential supplier that might compromise — or even appear to compromise — his or her objective assessment of the supplier's product and price. (For more details on what might be considered a "benefit" and on gifts and entertainment in general, see page 20.) Promotional items of modest value are acceptable, as is moderately scaled entertainment within the limits of responsible and generally accepted business practices.

No Nortel employee will require suppliers to give up trade with our competitors, nor require suppliers to buy our products in order to retain

protected
environmental
conservation

Q: I'm involved in purchasing, and I occasionally get calls from people in other departments who are looking for information about suppliers' bids, so that they can determine whether we can provide the same goods or services internally for less money. Can I give them this information?

A: No. Suppliers' bids are confidential information, and are made available only to individuals involved in making the purchasing decision.

their supply agreement with us. To avoid even the appearance of putting pressure on suppliers, no Nortel employee will solicit or accept gifts of merchandise or services from suppliers for company events or charitable activities.

Nortel employees must respect and protect any confidential or proprietary information shared with us by a supplier. We also should not hesitate to let our suppliers know that we trust them to do likewise.

Gathering Competitive Information

Nortel employees will not use improper means of gathering information about competitors. Theft, illegal entry and electronic eavesdropping are obviously unacceptable means of searching for competitive intelligence. In addition, you must not misrepresent yourself or

your situation in order to convince somebody to release information to you (by posing as a customer, for example), or commission a third party to do so. You must not offer a bribe or a gift in exchange for competitors' information, nor solicit confidential information from a competitor's ex-employee now working for Nortel. This is not a comprehensive list of unacceptable means — contact the Legal department or the Business Ethics function before reviewing or using any competitive information about which there may be even the slightest question.

Q What does Nortel consider to be "acceptable" methods of obtaining information about competitors?

A Nortel employees seeking competitive intelligence have access to a wide variety of publicly-available information: the annual reports of competitors and their key suppliers, environmental reports, stockbrokers' analyses, analyses published by telecommunications experts, press releases, trade shows, articles in trade journals and so on. Watch the newspapers for speculation about upcoming mergers or acquisitions, monitor real estate listings for sales or purchases of new property, investigate patent filings, or research the winning bids for publicly-tendered contracts.

Protecting Assets

Collectively, we have a responsibility to protect the corporation's assets and ensure their efficient use. Theft, carelessness, and unnecessary waste have a direct impact on the corporation's profitability and, ultimately, on all of our jobs.

Supplies and equipment purchased by the corporation are intended to be used for Nortel business purposes only. Any other use — for after-hours charitable work, for example — must receive prior approval from your

Q Is it okay for me to use my office computer after business hours for outside course work?

A Normally, yes. You should, however, first obtain permission from your manager.

manager. Everyone involved in operating equipment bears a responsibility for understanding its proper use and maintaining it in good condition.

Information is a key corporate asset. Inadvertent release of business or technical information to third parties may help our competitors by providing them with the technical solution to an important problem, or by allowing them to avoid costly research and development activities. If competitors gain even a very general sense of what we intend to bring to market, it may give them a head start in countering whatever advantages we might have had with our customers. The receipt of sensitive business or technical information from competitors or other industry players also carries significant risks: our own internal

development activities in the area may be foreclosed. Inappropriate handling of sensitive information or original ideas provided by third parties can lead to loss of trust and liability for damages.

Employees who have access to proprietary and confidential information — which may range from engineering designs, to employee records, to data entrusted to us by a customer or competitor — must take every precaution to keep it confidential. Be very cautious in discussing company business in public — in restaurants, on airplanes, or on

Q I'm never sure how much I'm allowed to tell people about my work. How can I tell whether things that I know are considered to be "proprietary and confidential" information, and whom I can discuss them with?

A This is a very complex issue, especially in situations where Nortel is partnering with competitors or customers on special projects. When in doubt, ask — your manager, the Legal department, Corporate Security or the Business Ethics function. As a general rule, all information related to Nortel business should be considered proprietary unless it has been released in public documents.

public pay phones. Use extra care in transmitting confidential materials via fax. And remember that our obligation to protect Nortel's proprietary and confidential information continues even after we leave the company.

Protection of company information also means reporting information completely and accurately — be it environmental impact data, product test results, or sales projections. Trying to hide bad news through misleading figures undermines trust over the long term, and may in some cases be illegal.

The reputation of the corporation, its employees and its products is also an important asset that you have a responsibility to protect.

Using Copyrighted Materials

Many materials used by Nortel employees in the course of their work are protected by copyright laws: computer software, books, audio and videotapes, trade journals and magazines are a few examples. Things like presentation slides, training materials, management models and problem-solving frameworks produced by outside consultants or organizations may also be copyrighted. Reproducing, distributing or altering copyrighted materials without the permission of the copyright owner or authorized agents is forbidden. Computer software licensed by Nortel must not be illegally copied for personal, company, or customer use.

Q I have a personal computer at home and would like to use it to work at home on weekends instead of coming into the office. Can I copy the software that I have on my company computer onto my personal computer as long as it is used strictly for company business?

A You must first determine the licensing agreement that Nortel has with the software manufacturer. Under some of these agreements, the copying of software for business purposes is acceptable; under others it represents a copyright infringement and is therefore not permissible. For more information, contact the Legal department.

Q I'm concerned about losing my job, and would like to start my own outside business to fall back on.

Is this a conflict of interest?

A An outside business activity does not necessarily put you in a conflict of interest situation — but it may do so. You must inform your manager of your intention before you start an outside business. He or she will consult the appropriate legal counsel to determine whether or not the activity you propose constitutes a conflict of interest.

Conflicts of Interest

A "conflict of interest" occurs when our private interests interfere in any way — or even appear to interfere — with the interests of the corporation as a whole. A conflict of interest situation can arise when we take on outside work or make a financial investment that makes it difficult for us to perform our Nortel work objectively and effectively. Conflicts of interest also arise when we or members of our family receive personal, unearned benefits as a result of our position in the corporation. (For more on how these conflict of interest guidelines apply to family and close personal friends, see page 23.)

Outside Activities

Nortel employees, officers, and members of the board of directors must not serve as directors or officers of any organization which might supply goods or services to the corporation, buy goods or services from the corporation, or compete with the corporation, without prior approval of the appropriate corporate legal counsel. Neither is it permissible for them to work as employees of or consultants to any of these organizations. These are clear conflict of interest situations.

There are cases, however, where Nortel employees start their own outside businesses, or take on additional part-time work with organizations that are neither competitors, suppliers, nor customers. This in itself does not constitute a

conflict of interest. It is the employee's responsibility to ensure that the second job does not conflict with the interests of Nortel. This means, for example, ensuring that the two activities are strictly separated:

- That you do not do the other organization's work on Nortel time.
- That customers and colleagues from your outside activity do not contact you at Nortel.
- That you do not use Nortel equipment and supplies, nor the time of any Nortel personnel, for your outside work.
- That you do not promote products or services from your outside business to other Nortel employees during working hours.
- That you do not attempt to sell products or services from your outside work back to Nortel.

In order to avoid any uncertainty, you must let your manager know and approve of the outside work prior to commencing it.

QOne of my suppliers gave me a bottle of wine and a box of chocolates at Christmas, and I accepted these gifts. We have a long-standing business relationship, and I was afraid she would be offended if I refused. Did I make a mistake?

AMany Nortel locations solve the problem by sending out letters to suppliers at holiday times, asking that they not offer gifts, and explaining why. In cases such as this, where the gift is relatively small and its refusal might give offense, it would be appropriate to accept the gift on behalf of your department. The chocolates could be shared with staff and visitors. Department staff could draw lots to determine who gets to take the wine home, or else it could be donated to a company social event.

Gifts and Entertainment

The guidelines on "gifts and entertainment" apply to anything given as a result of a business relationship, for which the recipient does not pay fair market value. This includes such things as meals and beverages, travel and accommodation for business or vacation purposes, tickets to sporting or cultural events, discounts not available to the general public, cash, art objects, and any other merchandise or services. The guidelines apply at all times: they do not change during traditional gift-giving seasons, nor during the planning of a company event.

Business gifts and entertainment are courtesies designed to build understanding and goodwill among business partners. In some cultures they play an important role in

business relationships. The problem arises when they begin to compromise — or even appear to compromise — our ability to make objective and fair business decisions. Offering or receiving any gift, gratuity, or entertainment that might be perceived to unfairly influence a business interaction involves you in a conflict of interest situation.

For this reason, Nortel employees must not accept gifts and gratuities from suppliers or potential suppliers, except for promotional items of limited value (such as inexpensive pens, mugs, and calendars that bear the company's name). The same standards apply to the corporation's dealings with its customers: Nortel does not offer gifts and gratuities to employees of customers or potential customers, except for modest items for

promotional purposes. All such gifts must be properly reported on expense statements.

Business entertainment must also be moderately scaled and clearly intended to facilitate business goals. If, for example, tickets to a sporting or cultural event are offered, then the person offering the tickets must plan to attend the event as well. As a general guideline, business entertainment in the form of meals and beverages is acceptable, as long as it is modest, infrequent, and as far as possible on a reciprocal basis.

As these guidelines cannot cover every eventuality, the onus is on individual employees to use good judgment. "Everyone else does it" is

not sufficient justification. If you are having difficulty determining whether a specific gift or entertainment offer lies within the bounds of acceptable business practice, ask yourself these guiding questions:

- Is it clearly related to the conduct of business?
- Is it moderate, reasonable, and in good taste?
- Would I feel comfortable owning up to the giving or receipt of this gift in front of other customers and suppliers? other employees? my manager? my family? the media?

- Do I feel any pressure to reciprocate or grant special favors as a result of this gift? (Or, conversely, am I trying to put pressure on someone else to reciprocate or grant favors?)
- Am I certain the gift does not violate any law or business regulation?

If you have any concerns or uncertainties, contact your manager or the Business Ethics function.

There are some cases where refusal of an inappropriate gift would cause embarrassment and hurt to the person offering it. This is particularly true when you are a guest in another country, and the gift is something from that country offered as part of a public occasion. In these cases, the best practice is usually to accept the gift on behalf of the corporation, report it to your manager, and turn it over to the corporation.

In some circumstances, Nortel may offer a gift as part of a public occasion. Such gifts must be approved in advance, accurately and completely accounted for, and reported on the books and records of the corporation.

QI recently had to pay \$100 to get our equipment through customs quickly. Since the company doesn't pay bribes, should I report this as a meal or entertainment expense?

ANo. You should accurately report the sum as a "facilitation payment" on your expense voucher. Remember, though, that in some countries such payments are illegal. If you are not certain that facilitation payments are legal in the country in which you are working, contact the Legal department or the Business Ethics function immediately.

Bribes and Kickbacks

Under no circumstances is it acceptable to offer, give, solicit, or receive any form of bribe, kickback, or inducement. This principle applies to Nortel transactions everywhere in the world, even where the practice is widely considered "a way of doing business." Under some statutes (such as the U.S. Foreign Corrupt Practices Act), these are criminal actions that can lead to prosecution.

In order to ensure that agents and representatives acting on Nortel's behalf are not themselves offering or

receiving bribes or kickbacks, all such arrangements must be covered by written contracts and documented in accordance with legal and accounting requirements and ethical business practices. The compensation spelled out in the contracts must be clearly commensurate with the activities undertaken. Remuneration above certain levels requires senior executive approval.

In some instances, small "facilitation payments" or tips are permissible if they are intended to secure a routine business service such as having a telephone installed or expediting a shipment through customs. These payments must be clearly and accurately reported as a business expense. You should be aware, however, that in some countries, such payments are illegal and must not be paid. If you have any doubts or questions, contact your manager, the Legal department, or the Business Ethics function.

Q:

A fellow employee recently told me that Nortel would announce higher than expected earnings for the quarter. Can I buy Nortel common shares before the earnings announcement?

No. It is against the law to trade in securities of the corporation while you are in possession of material information which has not been disclosed to the public. In addition, the employee who told you about the expected quarterly earnings acted improperly — unless you had a specific need to know this information for the performance of your duties. If you have any questions about whether or not you may buy or sell stock, contact the Legal department or the Business Ethics function.

Investment/Securities Trading

Any direct or indirect investment in one of Nortel's competitors creates a potential conflict of interest. Nortel employees, officers, and members of the board of directors must not invest in or control an organization that competes with any business or activity of the corporation, without prior

written permission of Nortel's corporate legal counsel — except in the case of publicly traded shares, when the investment does not exceed five percent of the issued shares. Also prohibited is investment in an organization that is or may be a supplier of goods and/or services to the corporation, again with the exception for publicly traded shares, when the investment does not exceed five percent of the issued shares.

"Insider trading" means using confidential material information about Nortel, its customers or suppliers to achieve an unfair advantage in the buying or selling of shares or other securities. "Material information" is usually defined as "information which, if publicly disclosed, would reasonably be expected to influence the decision of a reasonable investor to buy, hold or dispose of securities of the corporation."

Insider trading is both unethical and illegal. It is also illegal to pass on undisclosed material information to anyone, other than in the necessary course of business. Employees who involve themselves in insider trading (either by personally engaging in trading or by disclosing confidential

material information to others) are subject to immediate termination and prosecution.

Family and Friends

While conflict of interest guidelines are not intended to unduly interfere with an employee's family or personal life, there are situations where the actions of family members and close personal friends may constitute a conflict of interest for the employee. For example, any gifts or other benefits offered to family members by suppliers or potential suppliers are considered business gifts, subject to the guidelines outlined on pages 20-21. If your spouse, relative, or close personal friend is an employee of or has a substantial interest in a business seeking to provide goods and services to Nortel, you must ensure that you do not attempt to use your position in Nortel

to influence the bidding process or negotiation in any way. If you are directly involved in purchasing functions, you must declare this conflict of interest to your manager immediately.

If you have a relative or a friend who works for a competitor, you should make your manager aware of this situation and discuss the potential problems with him or her. If you need further advice, contact the Business Ethics function.

The potential for conflict of interest clearly exists if your spouse or partner also works at Nortel and is in a reporting relationship to you. Employees should not supervise nor be in a position to influence the hiring, work assignments or assessments of someone with whom they have a close personal relationship.

Q: My brother-in-law is starting a business and has offered a terrific price for some of the company's business. Can Nortel purchase from my brother-in-law's company?

A: It is possible for the company to purchase from your brother-in-law's firm, but you must declare the relationship to your supervisor immediately. You must also take care not to try to influence the bidding process nor the company's negotiation with your relative.

for HELP or Clarification...

This *Code of Business Conduct* provides an overview of Nortel's commitment to applying high ethical standards to its business practice. It is not intended to be a comprehensive rule book.

Many of the statements made here are backed up by detailed policies and procedures. These are available on the NTFTP server (address 47.158.0.16, "Corporate Information" folder). In the current working environment, however, formal policies and procedures can't always keep up with new challenges or adequately deal with complex situations. Nobody has all the answers, but the best answers

evolve in an environment of open and frank discussion. Never hesitate to ask a question or report a concern.

Your most immediate resource is your manager. He or she may have the information you need, or may be able to refer the question to another appropriate source.

There may, however, be times when you prefer not to go to your manager. You may want confidential advice about a business ethics dilemma facing you. You may want more information than your manager can give you. Or you may want to report an ethical concern about your manager's conduct.

You can discuss your concern with the Business Ethics function without fear of any form of retaliation. When you call the Business Ethics function, this is what you can expect:

● Your concern or question will be taken seriously.

● You will reach an agreement with the Business Ethics function as to the steps that will be taken to address your concern. Nortel's Legal, Corporate Security and Human Resources

Q Do people really get dismissed for violating Nortel's ethical standards?

A Yes. Nortel takes these standards seriously and intends to enforce them. The standards apply to everyone. Any employee — no matter what his or her level in the corporation — who has committed theft or fraud against the company, or is found using or in possession of illegal drugs on company property, will be dismissed. In some circumstances, employees may be dismissed for conflict of interest violations, sexual harassment or falsifying company records.

departments will become involved in the process as appropriate. It is Nortel's policy that Human Resources be involved in any suspected case of sexual harassment. If your concern involves a suspected illegal action, Business Ethics must consult with Nortel's Legal and Corporate Security departments.

- Your request for information or action will be handled promptly, discreetly and professionally. Discussions and inquiries will be kept in strict confidence to the extent appropriate or permitted by policy or law.
- If you wish, you will be informed of any follow-up action initiated by the Business Ethics function.

- Your right to remain anonymous will be respected, although you are encouraged to identify yourself. If you desire anonymity, please use one of the two telephone numbers listed below. Unlike the direct lines of Business Ethics staff, these are not equipped with caller ID.

To contact the Business Ethics function, call:

**ESN 333-3014 or (905) 452-3014
(Worldwide)**

**Or 1-800-683-3503
(Within North America)**

(no caller name or number displayed on these lines)

Or Quick Mail to Business Ethics

Other Sources of Information:

Regional Environment & Ethics Resource—a list of current phone numbers is kept in the "Business Ethics" folder on the HR file server or Nortel's Internal World Wide Web Page (see box below).

THE CODE IN SOFT COPY

If you'd prefer to read an interactive soft copy version of this text, look for it on the HR file server 47.201.0.75 in the "Business Ethics" folder. All employees at any location with access to CORWAN (the Corporate Wide Area Network) can access the HR file server by using Fetch or Hyper FTP. *The Code of Business Conduct* can also be found on Nortel's Home Page on the World Wide Web.

Version française

On peut obtenir la version française de cette publication en s'adressant au service d'Éthique commerciale.

Q I'm concerned that my manager may be committing fraud against the company, but I'm not really sure. What should I do?

A Report your concern to the Business Ethics function immediately. All information received by Business Ethics is handled discreetly: discussions and inquiries will be kept in strict confidence to the extent appropriate or permitted by policy or law. The circumstances will be professionally investigated. If we can find no independent corroboration of your concern, no action will be taken against your manager — nor against you for your report. If your manager does suspect that you have reported him or her, you will be protected from retaliation.

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Acknowledgments

In preparing this revision of Nortel's *Code of Business Conduct*, we benchmarked our existing *Code* against those of several other corporations, including Bank of Montreal, Baxter, BellSouth, Digital Equipment Corporation, Ford Motor Company, Martin Marietta Corporation, NYNEX, Teledyne, Texas Instruments, and United Technologies Corporation.

We would like to thank these and other organizations that have generously shared their work in this area with us and have allowed us to benefit from their thinking. We will happily do the same.

We would also like to thank the many Nortel employees from around the world who provided input to this revision by participating in focus groups, by reviewing early drafts, or by contacting the Business Ethics function with questions, comments, and concerns. We continue to welcome suggestions for future updates of this or other Business Ethics publications.

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*Or 1-800-683-3503
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This publication was printed on recycled paper. 

This publication replaces the Code of
Business Conduct of December 1989.