

THE SETTLEMENT AGREEMENT

1. How does this settlement affect me?

The Settlement Agreement provides:

- for pensioners and their survivors, the continuation of medical, dental and life insurance benefits through December 31, 2010;
- for all defined benefit pension plan members, Nortel's continuation and current service funding of the pension plans until the end of September 2010;
- for eligible employees terminated prior to June 30, 2010 without severance pay, a lump sum payment of up to \$3000 as an advance against their claims under CCAA;
- for employees on long term disability, the continuation of disability income benefits and the continuation of medical, dental and life insurance benefits through December 31, 2010; and
- for those receiving survivor income and survivor transition benefits, the continuation of those payments through 2010.

The settlement provides that pension and Health and Welfare Trust (HWT) Claims will not enjoy priority status in the estate while under CCAA (see Question 11 of this FAQ regarding possible amendments to the *Bankruptcy and Insolvency Act*), provides for releases against certain parties (see Questions 15 and 17 of this FAQ) and provides that the Former Employees will withdraw their application for leave to appeal to the Supreme Court of Canada for the payment of statutory minimum termination and severance pay under the Ontario *Employment Standards Act* (or equivalent provincial legislation).

The terms of the Settlement Agreement and the Settlement Order, if approved by the Court on March 3, will apply to you.

2. What benefits are in this deal for the other parties to the Settlement Agreement?

An efficient and orderly ultimate distribution of Nortel's estate is in the interests of all stakeholders. Although the other creditors are not parties to the Settlement Agreement, it benefits them because it achieves the resolution of issues and avoids future litigation that would cause delays and create additional costs for all interested parties.

3. Is the Settlement Agreement the same thing as a Plan of Compromise or a Plan of Arrangement?

No. The Settlement Agreement is an interim funding arrangement which ensures that your health, dental, life insurance and income benefits will continue through 2010. The Settlement Agreement provides you with certainty and security of the continuation of your benefits through 2010.

A Plan of Compromise or Plan of Arrangement is a Plan put forward to the creditors of a company that is under CCAA protection. A Plan of Compromise or Plan of Arrangement is subject to a creditors' vote and then ultimately, to Court approval. The Settlement Agreement is not a Plan of Compromise or a Plan of Arrangement. There is no creditor vote on the Settlement Agreement – it is subject only to Court approval. An approval of the Settlement Agreement on March 3 does not preclude your constituency from voting on any Plan of Compromise or Plan of Arrangement that may be presented by Nortel in the future. Approval of the Settlement Agreement does not hinder the progression of other issues and negotiations pertaining to Nortel's CCAA proceedings. In fact, one purpose of the Settlement Agreement is to provide some breathing room and time for negotiations surrounding the future of your pensions, benefits and your claims against Nortel's estate. After the March 3 court hearing, KM and the court-

appointed Representatives will work to finalize the Compensation Claims Process and the allocation of the assets in Nortel's Health and Welfare Trust.

4. Is this settlement fair?

It is the view of the Representatives and Representative Counsel that this Settlement Agreement represents a fair and reasonable short-term solution for the provision of benefits to a large group of individuals who, for the most part, do not have any other source of income or ready ability to replace those benefits that they received from Nortel. Although the cessation of benefits and transfer of the Pension Plans is inevitable given that Nortel is insolvent and winding up its business, the terms of the Settlement Agreement will provide this group of people with certainty as to the time frame in which it will happen and advance notice of the transition. It also provides an advance priority payment on claims for the terminated group.

5. What happens if there are changes to the Settlement Agreement and/or Settlement Order?

At the March 3 hearing the Court may approve the Settlement Agreement and Order in their current form, or with amendments. The parties to the Settlement Agreement, which include the court-appointed Representatives and Representative Counsel, must agree to the amendments for the agreement to be modified. If there are amendments they will be posted on the Monitor's website. Amendments, if any, will bind you unless the Court orders otherwise.

6. How was the \$57 million charge for benefits determined?

It is an estimate of the cost of providing the benefits in the Settlement Agreement from January 1, 2010 through December 31, 2010. Nortel in its Press Release identified the value of the benefit payments as \$100 million, which included payments through 2009.

7. What are the details of the employee incentive program (KEIP/KERP) announced on February 11, 2010?

Please see the 37th Report of the Monitor, which outlines the details of the KERP /KEIP for 2010. This report can be accessed from the Nortel Documentation Repository at the Ernst & Young Inc. website at www.ey.com/ca/nortel.

8. Why did we give up our right to object to the KERP / KEIP in the Settlement Agreement?

The Canadian creditors' input on the KERP / KEIP payments is through the Monitor, who is involved in the review and assessment of the appropriateness of the payments. The Settlement Agreement provides that we will not object to the KERP / KEIP provided the Monitor is of the view that the payments are reasonable. We rely on the Monitor as a court-appointed officer to ensure that all incentive payments are reasonable and necessary. Please note that other creditors who also have significant economic interests in this process have not objected to such payments in the past, indicating a recognition that they are fair and reasonable in the circumstances.

Although certain news items recently have implied that the money for the bonus payments should be used instead to fund income for disabled employees, that is simply not an option. The majority of the monies to be paid in bonuses will come from the purchasers of Nortel's businesses and is not available for any other use.

9. What does it mean that pensioners, former employees and disabled employees cannot be placed in a different "classification" than other creditors?

If the company presents a Plan of Arrangement or Plan of Compromise, all unsecured creditors will be classified in the same group. You will still be entitled to vote on the Plan. It simply means that employees will not be placed in

a separate group for the purposes of the voting of the Plan and any ultimate distribution, and cannot be treated differentially from other creditors.

10. What is the significance of the HWT and Pension Claims being unsecured claims/not being priority claims?

They will receive the same proportionate distribution (no more, no less) as other unsecured claims in a Plan of Arrangement and in the ultimate distribution of Nortel's assets.

11. If there is an amendment to bankruptcy legislation, will new amendments apply?

Section H of the Settlement Agreement deals with the CCAA Plan or subsequent bankruptcy. Clause H.2 provides the following:

Notwithstanding anything else in this Settlement Agreement, including for greater certainty of paragraph G.2 hereof, in the event of a bankruptcy of Nortel, if there is an amendment to any provision of the *Bankruptcy and Insolvency Act* that changes the current, relative priorities of the claims against Nortel, no party is precluded by this Settlement Agreement from arguing the applicability or non-applicability of any such amendments in relation to any such claim.

This means that if the *Bankruptcy and Insolvency Act* is amended in a way that is beneficial to the pensioners, former employees or disabled constituents, nothing in the Settlement Agreement will preclude the Representatives or Representative Counsel from arguing that those new provisions will apply to Nortel's insolvency proceedings.

12. It appears that clause H.2 is in conflict with other provisions of the Settlement Agreement. Which provision will prevail?

Clause H.2 prevails. The statement “**notwithstanding anything else in the Settlement Agreement**” effectively gives clause H.2 priority over any other conflicting clauses.

13. Is it possible that there will never be a bankruptcy?

Yes. Nothing is certain. A CCAA proceeding can be concluded with a Plan. It is possible that there could be a small company remaining once all major assets have been sold, which would deal with outstanding matters.

14. If Nortel remains in any form, will it be obligated to fund the pension plans?

No. Nortel is going to relinquish control over the pension plans effective September 30, 2010 and even if a transitional Nortel entity remains for the purposes of dealing with outstanding matters, it will not be obligated to fund the pension plans.

15. Why is the Supreme Court case being withdrawn?

As part of the settlement the application for leave to appeal to the Supreme Court of Canada will be withdrawn. The settlement avoids uncertain and costly litigation at the Supreme Court in favour of a payout out of funds that is certain and payable in a reasonable time frame.

16. Does the Settlement Agreement release fraud/misrepresentation claims?

No. In accordance with the Settlement Agreement, any director of Nortel is not released from any matter referred to in subsection 5.1(2) of the CCAA. Subsection 5.1(2) of the CCAA provides:

Exception

(2) A provision for the compromise of claims against directors may not include claims that

(a) relate to contractual rights of one or more creditors; or

(b) are based on allegations of misrepresentations made by directors to creditors or of wrongful or oppressive conduct by directors.

Further, the Settlement Agreement releases no one from claims for fraud.

17. Is a fraud/misrepresentation claim going to be pursued?

Claims for fraud or misrepresentation involve personal misconduct of a specific individual. A claim for fraud or misrepresentation will only be pursued if a valid claim against an individual exists, and this claim must be backed by evidence of personal misconduct. Representative Counsel will not pursue baseless litigation. If individuals are of the view that they have a valid fraud or misrepresentation claim, they should advise Representative Counsel immediately of the basis for such claim. Any individual is entitled to pursue a claim that they believe is worthwhile as an independent party at their own expense.

18. When will the pension plans be wound up? What actuarial valuation will be used?

If the proposed settlement is approved, Nortel would continue to administer the pension plans until September 30, 2010, after which time the administration of the plans would be transitioned to a new administrator appointed by the regulator. It will be up to the new administrator to determine when the plans will be wound up. An actuarial valuation will be prepared "as at" the wind up date. If you are receiving a pension, including a survivor pension, or start to receive one before September, you will receive your monthly pension payments in accordance with the pension plan until at least September 30, 2010, when Nortel stops administering the plans.

At some point in the future, your pension may be adjusted to reflect the funded status of the plan from which you receive your pension.