

**ONTARIO
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST**

THE HONOURABLE MR.) THURSDAY, THE 6TH
)
JUSTICE MORAWETZ) DAY OF OCTOBER, 2011

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
NORTEL NETWORKS CORPORATION, NORTEL NETWORKS LIMITED,
NORTEL NETWORKS GLOBAL CORPORATION, NORTEL NETWORKS
INTERNATIONAL CORPORATION AND NORTEL NETWORKS
TECHNOLOGY CORPORATION (the "**Applicants**")

APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED

COMPENSATION CLAIMS METHODOLOGY ORDER

THIS MOTION, made by the Applicants for an Order substantially in the form included in the Applicants' Motion Record, was heard this day at 361 University Avenue, Toronto, Ontario.

ON READING the Applicants' Notice of Motion, the affidavit of John Doolittle sworn on September 19, 2011, the Seventy-Fifth Report of the Monitor dated September 19, 2011, the Supplement to the Seventy-Fifth Report of the Monitor dated October 4, 2011, the affidavit of Susan Kennedy sworn September 21, 2011, the affidavit of Donald Sproule sworn September 21, 2011, the affidavit of Michael A. Campbell sworn September 20, 2011, the affidavit of Gus Tertigas sworn September 20, 2011, the affidavit of Thomas D. Levy sworn September 20, 2011, the affidavit of Alanna Mihalj sworn September 28, 2011, the affidavit of Kent Felske sworn September 27, 2011, the affidavit of Leigh Norton sworn September 27, 2011, the affidavit of

Dany Sylvain sworn September 29, 2011, the affidavit of Clio M. Godkewitsch sworn October 3, 2011, the affidavit of Andrea Yau sworn October 4, 2011, and the affidavit of Josée Marin sworn October 5, 2011 and on hearing the submissions of counsel for the Applicants, the Monitor, LTD Beneficiaries' Representative Counsel, Former Employees' Representative Counsel, CAW Counsel, counsel for the U.S. Debtors, the Continuing Employees' Representative Counsel, counsel for the Bondholder Group, the Committee and the Board of Directors of Nortel Networks Corporation and Nortel Networks Limited, and on the consent of the LTD Beneficiaries' Representative, LTD Beneficiaries' Representative Counsel, Former Employees' Representatives, Former Employees' Representative Counsel, Continuing Employees' Representatives, Continuing Employees' Representative Counsel, the CAW and CAW Counsel, no one appearing for the other parties served with the Applicants' Motion Record, although duly served as appears from the affidavits of service of Darlene Moffett and Caterina Costa sworn September 20, 2011 and September 21, 2011, respectively, filed.

ON BEING ADVISED that certain claims were each excluded from the operation of the Claims Procedure Order, and that the Applicants now wish to establish a methodology and claims process with respect to such claims.

Service

1. THIS COURT ORDERS that the time for service of the Notice of Motion and the Motion Record filed by the Applicants in support of this Motion be and it is hereby abridged and validated such that the Motion is properly returnable today.

Scope of this Order

2. THIS COURT ORDERS that except as otherwise specifically set out herein, this Order shall apply only to Compensation Claims as defined in this Order.

PART II -- DEFINITIONS

3. The following terms shall have the following meanings ascribed thereto, and the plural or singular of any such term shall have the corresponding meaning:
 - (a) “**Active Canadian Service Employees**” means individuals who as of Year End 2010 were employed by a Nortel entity that is not an Applicant but who were at some point employed by an Applicant;
 - (b) “**Active Employee**” means an Employee who was employed by an Applicant as of Year End 2010;
 - (c) “**Active Precision Employees**” means individuals who (i) were employed by an Applicant immediately prior to the Precision Transaction, (ii) were Unionized Employees, (iii) were transferred to Precision as part of the Precision Transaction, (iv) are identified by Former Employees’ Representative Counsel as continuing employment with Precision as of the date of the Compensation Claims Procedure Order, as updated from time to time, and (v) have a Benefit Claim under the RAP in accordance with the terms of the Precision Transaction according to the books and records of the Applicants;
 - (d) “**Benefit Claims**” means claims of Employees under the Non-Registered Pension Plans and claims for the Non-Pension Benefits calculated in accordance with the

Compensation Claims Methodology and to be set out in an Information Statement;

- (e) “**CAW**” means National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada) and its Locals 27, 1525, 1530, 1837, 1839, 1905 and/or 1915 and George Borosh et al.
- (f) “**CAW Counsel**” means Barry E. Wadsworth and Lewis Gottheil, counsel to the CAW;
- (g) “**CCAA**” means *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended;
- (h) “**Compensation Claims**” means the Benefit Claims, Termination and Severance Pay Claims or Patent Award Claims calculated pursuant to the Compensation Claims Methodology;
- (i) “**Compensation Claims Methodology**” has the meaning given to such term in paragraph 6 of this Order;
- (j) “**Compensation Claims Procedure Order**” means the Order bearing such title, made by the Court on the date of this Order;
- (k) “**Compensation Creditor**” means any Person asserting a Claim;
- (l) “**Continuing Employees’ Representative Counsel**” means Nelligan O'Brien Payne LLP and Shibley Righton LLP, as appointed by the Court on July 22, 2009;

- (m) “**Employees**” means the Applicants’ employees, former employees, pensioners and their survivors, including LTD Beneficiaries;
- (n) “**Filing Date**” means January 14, 2009;
- (o) “**Former Employees’ Representative Counsel**” means Koskie Minsky LLP, as appointed by the Court on May 27, 2009;
- (p) “**Identified Claimants**” means Employees (other than Active Employees, Active Canadian Service Employees and Active Precision Employees), including Terminated Canadian Service Employees and Retired Precision Employees, known to the Applicants and the Monitor as of the date of this Order to have Compensation Claims according to the books and records of the Applicants;
- (q) “**Income Tax Gross Up**” means a net effective 10% gross up for income taxes on the present value of the following claims: (i) Pensioner Life, including ADB and all LTD Life insurances (i.e., Basic Life, Optional Life, AD&D, Dependent Life); (ii) claims under Non-Registered Pension Plans; (iii) Registered Pension Plan accruals, (iv) SIBs; and (v) STBs (each as defined in the Monitor’s Report);
- (r) “**Income Tax Gross Up Claim Categories**” means: (i) Pensioner Life, including ADB and all LTD Life insurances (i.e., Basic Life, Optional Life, AD&D, Dependent Life); (ii) claims under Non-Registered Pension Plans; (iii) Registered Pension Plan accruals, (iv) SIBs; and (v) STBs (each as defined in the Monitor’s Report);

- (s) **“Information Statement”** means individual information statements prepared by the Applicants with the assistance of Mercer and the Monitor to be sent to Identified Claimants and, subsequently, Active Employees, Active Canadian Service Employees and Active Precision Employees, as part of the Information Statement Package, each such Information Statement to be in substantially the form as the Information Statement included as Appendix “N” to the Monitor’s Report, as such Information Statement may be amended or revised by the Monitor from time to time;
- (t) **“Information Statement Package”** means a document package, substantially in the form attached as Schedule “A” to the Compensation Claims Procedure Order, that includes: (i) a cover letter; (ii) Form A – Your Compensation Claim Amount; (iii) Form B – Your Personal Information Change Form; (iv) Guide to Using Form B; and (v) the Proof of Claim Document Package;
- (u) **“Initial Order”** means the Third Amended and Restated Initial Order dated January 14, 2009 made in these proceedings, as such Order may be further amended from time to time;
- (v) **“LTD Beneficiaries”** means Terminated Employees of an Applicant who (i) were not working at the time of termination due to an injury, illness or medical condition in respect of which they were receiving or were entitled to receive disability income benefits by or through an Applicant, and (ii) who may assert an existing or future claim for payment, reimbursement or coverage arising in connection with (A) their employment with an Applicant or termination thereof, or (B) a pension or benefit plan sponsored by an Applicant, including in relation

to medical, dental, long-term or short-term disability income benefits, life insurance or any other benefit, obligation or payment to which such person (or others who may be entitled to claim under or through such person) may be entitled, save and except those LTD Beneficiaries whose benefit or other payments, as described above, arise directly or inferentially out of a collective agreement between the Applicants, or any of them, and the CAW;

- (w) “**Mercer**” means Mercer (Canada) Limited (the Applicants’ actuarial advisor);
- (x) “**Mercer 2011 Non-Pension Benefits Valuation**” means the Valuation of the Obligations of the Non-Pension Benefits for Claim Purposes as at the Determination Date, by Mercer, dated September 2011;
- (y) “**Mercer 2011 Non-Registered Pension/Pension Accruals Valuation**” means the Valuation of Non-Registered Pension Benefits and Loss of Registered Pension Benefit Accruals for Claim Purposes as at the Determination Date, by Mercer, dated September 2011;
- (z) “**Mercer 2011 Valuations**” means the Mercer 2011 Non-Pension Benefits Valuation and the Mercer 2011 Non-Registered Pension/Pension Accruals Valuation;
- (aa) “**Monitor**” means Ernst & Young Inc. in its capacity as monitor pursuant to the Initial Order;
- (bb) “**Monitor’s Report**” means the Seventy-Fifth Report of the Monitor dated September 19, 2011 and filed with the Court;

- (cc) “**Non-Pension Benefits**” means the non-pension benefits provided by the Applicants to Employees and listed in the Monitor’s Report and in the Mercer 2011 Non-Pension Benefits Valuation;
- (dd) “**Non-Registered Pensions Plans**” means the non-registered pension plans provided by the Applicants to Employees and listed in the Monitor’s Report and the Mercer 2011 Non-Registered Pension/Pension Accruals Valuation;
- (ee) “**Non-Unionized Employees**” means all current employees of the Applicants that are not subject to a collective bargaining agreement and all former employees of the Applicants that were not subject to a collective bargaining agreement at the date of their termination;
- (ff) “**Patent Award Claims**” means claims of Employees under the Applicants’ patent award program described in the Monitor’s Report, calculated in accordance with the Compensation Claims Methodology and to be set out in an Information Statement;
- (gg) “**Pensioner Eligible Terminated Employees**” means Terminated Employees who were terminated after the Filing Date and were pensioner eligible at the date of termination but excluding Post-Filing Transferred Employees and LTD Beneficiaries;
- (hh) “**Person**” includes any individual (including an Employee), partnership, joint venture, trust, corporation, unlimited liability company, unincorporated organization, government body or agency or instrumentality thereof, or any other juridical entity howsoever designated or constituted;

- (ii) **“Personal Information”** means the personal information relating to a particular Employee based on the Applicants’ books and records as at Year End 2010, as updated from time to time, contained in “Form B - Your Personal Information Change Form” section of an Information Statement, as such Personal Information may be amended as a result of a Request for Correction accepted in writing by the Monitor, as a result of a Monitor Corrected Information Statement, or as a result of a determination pursuant to the dispute resolution mechanisms set out in the Compensation Claims Procedure Order;
- (jj) **“Plan”** means any plan of compromise and arrangement by one or more of the Applicants, if and when filed and approved by this Court, as revised, amended, modified or supplemented from time to time in accordance with its terms;
- (kk) **“Post-Filing Terminated Employees”** means Terminated Employees other than Pre-Filing Terminated Employees;
- (ll) **“Post-Filing Transferred Employees”** means Post-Filing Terminated Employees of any Applicant who, after the Filing Date, transferred employment to the buyer of a business unit of an Applicant, or who were offered employment with a buyer, but declined the offer, but excluding Pensioner Eligible Terminated Employees;
- (mm) **“Precision”** means Precision Communications Service Corp.;
- (nn) **“Precision Transaction”** means the sale of assets by Nortel Networks Corporation to Precision completed as of March 3, 2000;

- (oo) “**Pre-Filing Terminated Employees**” means Terminated Employees who were terminated or received notice of termination prior to the Filing Date and have amounts owing to them under their termination agreements;
- (pp) “**Proof of Claim Document Package**” means a claim document package for any Compensation Creditor other than Identified Claimants comprised of a Form C – Proof of Claim and a Guide to Completing Form C, substantially in the form attached as Schedule “B” to the Compensation Claims Procedure Order;
- (qq) “**Registered Pension Plans**” means the Nortel Networks Limited Managerial and Non-Negotiated Pension Plan and the Nortel Networks Limited Negotiated Plan;
- (rr) “**Retired Precision Employees**” means individuals who (i) were employed by an Applicant immediately prior to the Precision Transaction, (ii) were Unionized Employees, (iii) were transferred to Precision as part of the Precision Transaction, (iv) are identified by Former Employees’ Representative Counsel by the date of the Compensation Claims Procedure Order as having retired from Precision, and (v) have a Benefit Claim under the RAP in accordance with the terms of the Precision Transaction according to the books and records of the Applicants;
- (ss) “**Terminated Canadian Service Employees**” means individuals who were employed by an Applicant at some point but have been terminated and immediately prior to their termination were employed by a Nortel entity that is not an Applicant;
- (tt) “**Terminated Employees**” means Employees employed by an Applicant immediately prior to termination and who were terminated;

- (uu) “**Termination and Severance Pay Claims**” means claims of Employees for termination and severance pay including, where applicable, damages for or in the nature of wrongful dismissal, claims for fringe benefits, Registered Pension Plan accruals and grow-ins under Non-Registered Plans during the applicable Court-approved notice period calculated in accordance with the Compensation Claims Methodology and to be set out in an Information Statement;

- (vv) “**Unionized Employees**” means all current employees of the Applicants that are subject to a collective bargaining agreement and all former employees of the Applicants that were subject to a collective bargaining agreement at the date of their termination; and

- (ww) “**Year End 2010**” means midnight on December 31, 2010.

PART III – COMPENSATION CLAIMS METHODOLOGY

4. THIS COURT ORDERS that the methodology and assumptions for the calculation of Benefit Claims described in the Seventy-Fifth Report and set out in the Mercer 2011 Valuations attached as Appendices “B” and “C” to the Seventy-Fifth Report are approved (the “**Benefit Claim Methodology**”).

5. THIS COURT ORDERS that the methodology and assumptions for the calculation of Termination and Severance Pay Claims described in the Seventy-Fifth Report and set out in Appendix “D” of the Seventy-Fifth Report are approved (the “**Termination and Severance Pay Methodology**”).

6. THIS COURT ORDERS that the methodology and assumptions for the calculation of Patent Award Claims described in the Seventy-Fifth Report and set out in Appendix “E” to the Seventy-Fifth Report are approved (the “**Patent Award Claim Methodology**”, together with the Benefit Claim Methodology and the Termination and Severance Claim Methodology, the “**Compensation Claims Methodology**”).
7. THIS COURT ORDERS that a Compensation Claim of an Identified Claimant shall be calculated by the Applicants and the Monitor (with such actuarial assistance as they may require) based on the Personal Information relating to that Employee as of Year End 2010 and in accordance with the Compensation Claims Methodology.
8. THIS COURT ORDERS that a Compensation Claim of an Active Employee, an Active Canadian Service Employee and an Active Precision Employee shall be calculated by the Applicants and the Monitor (with such actuarial assistance as they may require) based on the Personal Information relating to that Employee and in accordance with the Compensation Claims Methodology as of the date on which that Employee ceased or ceases employment.
9. THIS COURT ORDERS AND DECLARES that:
 - (a) the Compensation Claims Methodology shall be final and binding on all Employees and any other Person asserting a Compensation Claim;
 - (b) no Employee or other Person asserting a Compensation Claim shall directly or indirectly assert, advance, re-assert or re-file any Compensation Claim that is not calculated in accordance with the Compensation Claims Methodology; and

- (c) any Compensation Claim that is directly or indirectly asserted, advanced, re-asserted or re-filed that is not calculated in accordance with the Compensation Claims Methodology shall be disallowed.
10. THIS COURT ORDERS THAT in the event an Income Tax Gross Up Claim Category is finally determined not to be subject to federal or provincial income tax by competent taxing authorities or a court of competent jurisdiction, the Compensation Claims Methodology shall be amended to remove the Income Tax Gross Up from such Income Tax Gross Up Claim Category and the Compensation Claim of any Employee in respect thereto shall be reduced to no longer include the Income Tax Gross Up; provided, however, that an Employee shall not be required to repay any distribution that has been received by that Employee except through the application of set-off against any future distribution to that Employee.

PART IV – THE MONITOR

Monitor's Role

11. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, the Initial Order, and the August 14, 2009 Order made in these proceedings, is hereby directed and empowered to take such other actions and fulfill such other roles as are authorized by this Order.

Protections for Monitor

12. THIS COURT ORDERS that (i) in carrying out the terms of this Order, the Monitor shall have all of the protections given to it by the CCAA, the Initial Order, and the August 14,

2009 Order made in these proceedings, or as an officer of this Court, including the stay of proceedings in its favour, (ii) the Monitor shall incur no liability or obligation as a result of the carrying out of the provisions of this Order, except for its own wilful misconduct or gross negligence, (iii) the Monitor shall be entitled to rely on the books and records of the Applicants, and any information provided by the Applicants, all without independent investigation, and (iv) the Monitor shall not be liable for any claims or damages resulting from any errors or omissions in such books, records and information.

13. THE COURT ORDERS that the Monitor may authorize counsel or other professional advisors (including the actuaries retained by the Monitor or the Applicants) to take any steps or perform any duties to be taken or performed by the Monitor under this Order, on behalf of and in the stead of the Monitor.

PART V – MISCELLANEOUS

Continuing Employees' Representative Counsel

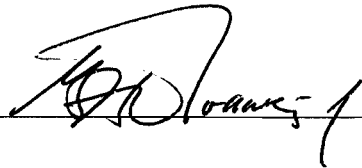
14. THIS COURT ORDERS that, for greater certainty, the term "Continuing Employees" in the Order of this Court in these proceedings dated July 22, 2009 includes the Post-Filing Transferred Employees who are Non-Unionized Employees.

Directions

15. THIS COURT ORDERS that the Applicants or the Monitor may, at any time, and with such notice as this Court may require, seek directions from the Court with respect to this Order and the application of the Compensation Claims Methodology.

Request for Aid and Recognition

16. THIS COURT ORDERS AND REQUESTS the aid and recognition of any court or any judicial, regulatory or administrative body in any province or territory of Canada (including the assistance of any court in Canada pursuant to Section 17 of the CCAA) and any court or any judicial, regulatory or administrative body of the United States of America, the United Kingdom, the French Republic, the State of Israel, and the Republic of Korea, and of any other nation or state, to act in aid of and to be complementary to this Court in carrying out the terms of this Order.



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OCT 06 2011

PER/PAR: 

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF NORTEL NETWORKS CORPORATION, NORTEL NETWORKS LIMITED, NORTEL NETWORKS GLOBAL CORPORATION, NORTEL NETWORKS INTERNATIONAL CORPORATION AND NORTEL NETWORKS TECHNOLOGY CORPORATION

Court File No: 09-CL-7950

ONTARIO

**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**COMPENSATION CLAIMS METHODOLOGY
ORDER**

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