

July 19, 2011

Mark Zigler  
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**Via Regular Mail**

Dear Sirs/Mesdames:

**Re: Update for Disabled Employees of Nortel Networks Corp. et al. ("Nortel")  
Our File No. 09/1329**

We are writing to provide you with an update on Nortel's proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA"). This letter is being sent to all disabled employees including those represented by the CAW-Canada, which has reviewed the information contained in this letter. If you are a CAW member, you should direct any questions regarding this letter to the legal representative for the CAW – Barry Wadsworth, Associate Counsel, at (416) 495-3776 or by e-mail to [linda.cantin@caw.ca](mailto:linda.cantin@caw.ca).

**GENERAL UPDATE**

Since our last written correspondence to you, Nortel has continued in its proceedings under the CCAA. Nortel is currently involved in the sale of its last major asset groups, in particular the sale of the company's intellectual property and its portfolio of patents. On July 11 the Canadian and US Courts approved the sale of Nortel's IP for an estimated \$4.5 billion cash to a consortium comprised of various technology companies, namely, Apple, Research in Motion Limited (RIM), EMC Corporation, Telefonaktiebolaget LM Ericsson (Ericsson), Sony Corporation and Microsoft Corporation. Please see the Monitor's Seventy-First Report to the Court for more information (which is available at [www.ey.com/ca/nortel](http://www.ey.com/ca/nortel)). Although it is expected that these major asset sales should be completed by the end of 2011, there are a number of other issues that must be resolved prior to the stage when you will receive a cash distribution from the Nortel estate. Most notably, parties must come to a resolution about how to allocate funds among the various estates involved in the Nortel insolvency and employee claims must be determined.

The allocation of assets among Nortel's three main jurisdictions, Canada, Europe and the US, will be the subject of mandatory mediation ordered by the US and Canadian Courts, with Ontario's Chief Justice Warren Winkler presiding as mediator. The dates for the mediation are not yet known but will likely commence in September. The mediator is to assist the parties in reaching a voluntary settlement but he cannot impose a settlement. If the mediation fails there could be years of litigation in various countries before a final determination is reached. Our objective is to work together with all of the "Canadian Only Creditors" that includes disabled persons, pensioners, former employees, Morneau Shepell as pension wind-up administrator and Ontario's Pension Benefits Guarantee Fund, to reach an agreement that provides the Canadian employee groups with a significant recovery that can be paid within the next 12 months. This will be a difficult task given the claims of bondholders, and pensioners and creditors of other jurisdictions, but all parties have an interest in receiving payments promptly and avoiding years of litigation.

## **NORTEL'S HEALTH AND WELFARE TRUST**

### ***A. The Supreme Court of Canada's Decision***

The Supreme Court of Canada on June 9, 2011 denied leave to appeal from a decision of the Ontario Court of Appeal dated January 7, 2011 regarding the allocation of the assets of Nortel's Health and Welfare Trust. Leave had been sought by a small group of Nortel's disabled employees who opposed the decision of the CCAA judge of November 9, 2010 approving an allocation which gave all beneficiaries approximately 34% of their entitlements from the Trust. As the Supreme Court of Canada is the final route for appeal, this matter is now closed. The Monitor can now proceed to resolve existing contingencies in order to allow for a total distribution of the assets in the HWT.

### ***B. Expected Interim Distribution and Final Distribution***

The Monitor brought a motion before the Ontario Superior Court of Justice on June 21, 2011 to seek Court approval for a further interim distribution from the HWT. It was approved and this Third Interim Distribution, combined with the previous interim distributions, will provide Income Beneficiaries 25% of their estimated Income Benefits calculated in accordance with the Approved HWT Allocation Methodology.

It is expected that there will be a motion for approval of an interim distribution (likely in August) in respect of basic and optional life insurance benefits and later, an application for approval of the final distribution of the HWT. There are a number of outstanding issues that must be resolved before there can be a final distribution of the assets in Nortel's HWT. The Monitor is working toward a final wind-up of the HWT by the end of 2011. The financial advisors retained on behalf of the Court-appointed representatives have been involved in resolving issues that have arisen and will continue to be involved through the final accounting. For more information, please visit the Monitor's website at [www.ey.com/ca/nortel](http://www.ey.com/ca/nortel). You may wish to review in particular the Monitor's Sixty-Ninth Report to the Court, dated June 16, 2011 which discusses the Third Interim Distribution and provides an update on matters related to the HWT.

You can locate the Monitor's Sixty-Ninth Report on the Monitor's website at the following link: [http://documentcentre.eycan.com/eycm\\_library/Project%20Copperhead/English/Monitor's%20Reports/69th%20Report%20of%20the%20Monitor/MonitorsReport69.pdf](http://documentcentre.eycan.com/eycm_library/Project%20Copperhead/English/Monitor's%20Reports/69th%20Report%20of%20the%20Monitor/MonitorsReport69.pdf).

## **COMPENSATION CLAIMS PROCESS**

### ***A. Process & Timing of Compensation Claims Procedure***

Discussions to finalize the employment Compensation Claims Procedure are still underway. We expect to be before the court in September 2011, or shortly thereafter, to obtain court approval of a Compensation Claims Procedure. There will be notice provided when Court approval is sought. We will be holding webinars and live information sessions in order to provide you with information, explanations and the opportunity to ask questions. We have worked with the Monitor and actuarial advisors to quantify, in advance, all possible claims of disabled individuals (as well as all other former employee claimants) but nothing will be finalized until the Court approves the process and you are provided with an opportunity to review your claim and underlying data.

***B. Distribution from the Nortel Estate***

Although we expect the Compensation Claims Procedure to proceed in the coming months, you should not expect a distribution from the Nortel estate in the near future. There are a number of issues to be resolved prior to a distribution, including the determination of how to allocate funds among the various Nortel estates. Parties are currently working to resolve these issues, but it could be some time before a resolution is reached. We are trying to maximize the recovery to the Canadian estate but thus far all attempts at settlement with the UK and US estates and Nortel's bondholders have failed. There was a joint hearing held between the Canadian and US courts on June 7, 2011 at which the three major estates (Canada, the United States and EMEA) presented their views as to the best process to deal with allocation issues. We submitted that the matter is best dealt with by a joint hearing of the Canadian and US Courts but the European (EMEA) estate Administrator did not agree. The Court reserved its decision.

The Courts have issued an interim order requiring the parties to participate in a mediation with Ontario's Chief Justice Winkler presiding. Justice Morawetz in his reasons (available at [www.kmlaw.ca/case-central](http://www.kmlaw.ca/case-central)) emphasized that the parties co-operate to reach a settlement and provide funds to the parties who most require them, particularly former employees. Chief Justice Winkler has extensive mediation experience having resolved major disputes in the Air Canada insolvency and major class actions. The dates for the mediation are not yet known but will likely commence in September. Please watch KM and the Monitor's websites for developments.

**PENSION ISSUES**

Since its appointment as administrator of Nortel's pension plans, Morneau Shepell Ltd. ("Morneau") has made several announcements related to Nortel's pension plans.

***A. New Pension Commencements for Non-Quebec Plan Members***

The Financial Services Commission of Ontario (FSCO) some time ago provided Morneau with approval to commence new pensions at a level of 50%, which would be subject to future adjustments. It is expected that new information about the funded status of the pension plans will become available in the near future. When this occurs, disabled employees who commenced their pension at a level of 50% will see their monthly payments increase to the funded level such that they will be paid at the same level as other Plan members who reside in the same province. Affected disabled employees will also receive a reimbursement payment to account for any underpayments that an individual may have experienced since the commencement of his or her pension. All Plan members who have requested a retirement quote can expect to receive a communication from Morneau about this matter in the near future. If you have any questions, please direct them to Morneau.

***B. New Pension Commencements for Quebec Plan Members***

Pension laws vary by province and the rules that apply to Quebec Plan members differ from those that apply in other provinces. Quebec pension legislation does not technically permit the commencement of new pension payments to plan members who are not yet in receipt of a pension at

the effective date of wind-up. However, Quebec legislation does permit “temporary monthly payments” to be made to pension-eligible members. These “temporary monthly payments” are treated as pre-payments to Plan members’ ultimate commuted value transfer. FSCO has approved the payment of new pensions (at a 50% ratio) for pension eligible members. The pensions of Quebec pension eligible members are being started at this rate, subject to future adjustments as outlined above in section A.

***C. Financial Hardship Unlocking Option for LTD Plan Members in Ontario, Alberta and Nova Scotia***

Morneau has approval from FSCO to permit interim transfers to certain LTDs of up to 50% of the estimated commuted value (that is, 50% of your pension value calculated at the estimated funded ratio; so, if the funded ratio is 60%, you could transfer up to 30% of your pension value) to a locked-in retirement account. The intent of this extraordinary permission is to permit disabled employees who are suffering financial hardship to access a portion of their pension funds through an application to their provincial pension regulator to unlock their pension monies. This partial commutation option is available to disabled employees, regardless of age, who reside in Ontario, Alberta and Nova Scotia. If you wish to exercise this option, you must first contact Morneau to request a partial CV transfer. After this first stage is complete, you must then contact your provincial pension regulator in order to unlock the funds.

***D. Financial Hardship Unlocking Option for LTD Plan Members in Quebec***

Morneau has indicated that they are now in position to start making payments to LTD Plan members in Quebec who wish to exercise this option in the same manner as for members in Ontario, Alberta and Nova Scotia.

***E. Defined Contribution Plans***

The Defined Contribution (DC) pension funds will be distributed when that portion of the pension plans is wound up. The DC component of the plans will be wound up more quickly than the Defined Benefit component, however we have been advised by Morneau Shepell, the Administrator, that there are a few remaining issues to be resolved before that wind-up can be completed. We understand that Morneau is aiming to have the DC wind-up reports filed with the Regulator by the end of 2011 and pay the members out shortly after approval is obtained.

***F. Pension Related Questions***

The best place to direct your pension-related questions is to Morneau Shepell at:

**Managerial Plan:** 1.877.392.2074

**Negotiated Plan:** 1.877.392.2073

If you are experiencing a delay related to an application for pension commencement, a request to receive a partial commutation, or in otherwise reaching a representative at Morneau, please contact KM through our hotline or by email.

### UPCOMING WEBINARS

Morneau Shepell will be participating in a webinar hosted by KM in the near future to discuss the interim pension reductions that will become effective in August, 2011. The webinar date has been set as July 22, 2011 from 1:00-3:00pm ET. Details on how to participate and any changes to the proposed date or time will be posted on the KM website.

Participants can register for the webcast through the following link <http://www.bellwebcasting.ca/audience/index.asp?eventid=74164979>. A dial-in audio-only option will be available to individuals who do not have internet access. You can register for this service by leaving a voice message on the KM hotline (1.866.777.6344) with your name and telephone number.

### CONTACT INFORMATION

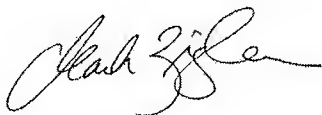
Updates and developments are posted on KM's website at [www.kmlaw.ca](http://www.kmlaw.ca), and also on the Monitor's website at [www.ey.com/ca/nortel](http://www.ey.com/ca/nortel). If you do not have access to the internet, please contact Representative Counsel by telephone. For more information you may contact:

- The CNELTD Steering Committee by email at [SteeringCommittee@cneltd.info](mailto:SteeringCommittee@cneltd.info);
- Representative Counsel by telephone at 1.866.777.6344 or by email at [nortel@kmlaw.ca](mailto:nortel@kmlaw.ca); or
- The Monitor by telephone at 1.866.942.7177 or 416.943.4439 or by email at [nortel.monitor@ca.ey.com](mailto:nortel.monitor@ca.ey.com).

If you have any questions about the information contained above, please contact us for further information.

Yours truly,

**KOSKIE MINSKY LLP**



Mark Zigler