

UPDATE: RELEASE OF NORTEL HEALTH AND WELFARE TRUST DECISION

As you are aware, in accordance with the settlement agreement that was approved by the Court on March 31, 2010, Nortel will cease to pay monthly long-term disability ("LTD") income benefit payments effective December 31, 2010. Your last monthly LTD income benefit payment will be issued in December. Nortel will also cease to pay medical and dental benefits effective December 31, 2010. All claims under existing coverage through Nortel must be incurred by December 31, 2010 and submitted for reimbursement no later than February 28, 2011.

Since the Court's approval of the settlement agreement, the court-appointed Monitor, Ernst & Young Inc., and other interested parties have been working diligently towards an approved distribution of the assets held in Nortel's Health and Welfare Trust ("HWT"). On September 29 through October 1, the Court heard a motion brought by the Monitor for the approval of a proposed methodology for the allocation of Nortel's HWT assets. After a detailed review and analysis of the relevant documents, the Monitor prepared a proposal that was determined to be a fair and reasonable balancing of interests in a trust fund that is inadequate to fully meet all claims.

The Monitor's motion for approval of its proposal for allocating the trust funds was supported by the court-appointed Representative for the LTD beneficiary group, the court-appointed Representatives for the former employee group, the CAW and the Nortel Canadian Continuing Employees. A group of approximately 40 dissenting LTD beneficiaries were the only group to oppose the Monitor's motion.

On November 9, 2010, the Court released its decision granting the Monitor's motion and approving its proposal for the distribution of the trust funds. The Court viewed the Monitor's proposal for a *pro rata* distribution as the only principled and fair manner of resolving the various claims against the trust. As a result of the Court's decision, following beneficiaries will receive a distribution from the HWT corpus on a *pro rata* basis:

- a. Pensioners (including those active employees who will vest by the valuation date and LTD beneficiaries) for pensioner life;
- b. LTD beneficiaries for LTD income benefits and LTD life;
- c. LTD beneficiaries participating under optional life for LTD optional life benefit;
- d. Survivor Transition Benefit ("STB") beneficiaries currently in pay for STBs; and
- e. Survivor Income Benefit ("SIB") beneficiaries currently in pay for SIBs.

It must be noted that the Court expressed its appreciation to all court-appointed Representatives for their diligent work in fulfilling their mandate in this difficult situation.

You will recall that as a beneficiary of the HWT, you received a Beneficiary Estimated Allocation Statement ("BEAS") in early September 2010, which provided you with a preliminary estimate of your distribution from the HWT in accordance with the Monitor's proposed Scenario 2. Please note that your BEAS estimate remains subject to change based on information updated to December 31, 2010, among other things.

Although the Monitor's proposal has been approved by the Court, the applicable appeal period has not expired and therefore the possibility of an appeal still exists. A final distribution of the trust assets cannot occur until after the applicable appeal period has expired. However, we are working with the Monitor and the CAW to address the financial hardship this situation imposes. Discussions with the Monitor have revolved around making an interim partial distribution of the funds in the HWT to those who have been receiving income from the trust (LTD, Survivor Income and Survivor Transition benefits). Any interim distribution will have to be approved by the Court and we will provide more information as it becomes available.

If you wish to view the Court's decision or other important documents such as the Fifty-First Report of the Monitor, please visit the KM website at www.kmlaw.ca or the Monitor's website at www.ey.com/ca/nortel.