

January 15, 2010

Communications Department
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Sent Via Mail

Dear X:

Re: Nortel Employees in Receipt of Long Term Disability ("LTD") Benefits
Re: Update on Nortel's CCAA Proceedings
Re: Potential Effects of Nortel's CCAA Proceedings on LTD Income and other Benefits
Our File No. 09/1329

As Representative Counsel to many of Nortel's disabled employees, we are writing to provide you with an update on Nortel's proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA") and to inform you of some of the potential effects on your LTD income and health benefits. As you may be aware, Nortel Networks Corporation and several of its affiliated companies ("Nortel") were granted protection from creditors under the CCAA by order dated January 14, 2009. Ernst & Young Inc. was appointed as Monitor of Nortel's CCAA proceedings.

Koskie Minsky LLP ("KM Law") was appointed as counsel to the disabled employees of Nortel (except those represented by the CAW) by court order dated July 30, 2009. Since that time, KM Law has been working with Susan Kennedy, the court-appointed representative (the "Representative"), and a group of other disabled employees of Nortel, all of whom are volunteering their time, to advance the claims of disabled employees in Nortel's CCAA process. These individuals have established the Canadian Nortel Employees on Long Term Disability committee ("CNELTD"), and can be contacted through the CNELTD Yahoo! Group.

You may join the CNELTD group by sending an email to CNELTD-owner@yahoogroups.com. If you do not have access to e-mail you can contact KM Law by telephone at 1.866.777.6344. Please provide your name and telephone number to a representative at KM Law, and this representative will ensure that a member of the CNELTD contacts you to provide you with more information.

If you are a CAW member, we have received permission of the CAW to send you this letter. If you have any questions or would like to speak with your legal counsel, you may contact Barry Wadsworth at the CAW at 1.800.268.5763, extension 3776.

Update on the CCAA Process

Since obtaining CCAA protection, Nortel has been selling its business units in efforts to maximize Nortel's estate to be distributed to its creditors, which includes the company's former and disabled employees. Nortel's CCAA activities are carefully monitored by the court and the

other stakeholders, including the creditor constituencies, to ensure that each sale and the overall process is completed fairly and efficiently. KM Law is working together with financial advisors (RSM Richter) and actuarial advisors (Segal Company), who have been retained to assist the disabled and former employees in the CCAA process, to monitor and review the sales processes for each of the business divisions that are being sold, and are involved in the discussions concerning the process for determining the allocation of the assets of the company among the three jurisdictions – US, UK and Canada.

Extension of the Stay of Proceedings

Nortel recently obtained an extension of its stay of proceedings until January 29, 2010. A further extension of the stay is dependent on additional funding from the non-Canadian Nortel entities. A funding agreement has just been finalized, and permits Nortel's continued operations in Canada through 2010 and 2011. A court hearing to consider the approval of that funding agreement is scheduled for January 21, 2010 and the stay will likely be extended at that time. The January 21st hearing will be a joint hearing between the US and Canadian courts.

Continued Payment of LTD Income Benefits and Health/Dental Benefits

Although it is unusual for benefits to be continued in an insolvency, your LTD income benefits and your medical coverage continue to be fully paid. The objective of KM Law and your Representative is to ensure that your benefits continue as long as possible, and ideally through 2010. The continuation of medical benefits will depend on ensuring a source of funding for those benefits, and the continuation of your income benefits will depend on the treatment of the Health and Welfare Trust from which those benefits are currently being paid. If your LTD income benefits and/or health and dental benefits must be reduced or altered in some way, as much notice as possible will be provided to you. Given the uncertainty of Nortel's CCAA proceedings, however, it is prudent to submit your health and dental claims for payment as soon as the expense is incurred.

The Health and Welfare Trust

As you are likely aware, Nortel did not carry an insurance policy for Long Term Disability income benefits that you receive each month. Rather, it chose to “self-insure” those benefits and partially funded them through a “health and welfare trust”. The Nortel Health and Welfare Trust was the vehicle through which all employee benefits were and are paid. LTD income benefits were provided through Sun Life, but Sun Life provides administrative services only – it does not insure those benefits. The Monitor's Thirty-Second Report to the Court, which can be accessed through the Ernst & Young Inc. website at <http://documentcentre.eycan.com/Pages/Main.aspx?SID=89&Redirect=1>, outlines some details of the Trust and includes as an Appendix the original Trust Agreement.

Your Representative and her legal and actuarial advisors are seeking current financial information on the assets and liabilities of the Trust. It is likely that the Health and Welfare Trust will be wound up and the assets of the trust equitably distributed to the beneficiaries, which includes you, prior to the end of Nortel's CCAA proceedings. Discussions have been underway for some time now towards a determination of the proper allocation and distribution of the assets

of the Health and Welfare Trust, which will be subject to approval by the CCAA judge. We hope to be before the Court, at least to deal with some preliminary Health and Welfare Trust issues, in the first few months of 2010. We will provide more information as it becomes available. To access the most recent updates, please visit KM Law's website periodically at www.kmlaw.ca/case-central, and click on Nortel Networks Corporation. If you wish to receive this information by e-mail, please call KM Law at 1.866.777.6344 and provide us with your email address, or contact the CNELTD Yahoo! Group as described earlier in this letter.

The Claims Process

Nortel's regular claims process, which included a filing deadline of September 30, 2009, did not apply to Nortel employees (including employees on Long Term Disability). Instead, KM Law and the actuaries at Segal, with the instructions and guidance of your Representative, are working with Nortel and the Monitor to establish a procedure and protocol for an employment claims process (the "Compensation Claims Procedure"). As a disabled employee, it is possible that you will receive two separate payments to compensate you for your future loss of benefits: one from a distribution of the funds in the Health and Welfare Trust, and one from a distribution of Nortel's estate through the Compensation Claims Procedure. However, we are examining the possibility of establishing future replacement medical coverage for your medical benefits for some period into the future. For this reason, all or a portion of your health and dental claims recovery may come in the form of future ongoing medical benefits, as opposed to a cash distribution.

Discussions to establish the Compensation Claims Procedure are ongoing, and the procedure has not yet been finalized. The first phase of those discussions has been to agree upon the categories of claims to be included and the underlying actuarial assumptions. The agreement of actuarial models is a very important step, as it is these actuarial calculations that will form the basis of your individual claim calculations. That first phase is nearing completion.

As a disabled employee, you will have a claim equal to the value of the loss of all benefits and amounts to which you are entitled from Nortel, including any future LTD income benefits, health and dental benefits, pension entitlements (including future pension accruals) and life insurance coverage. We understand that some individuals will have unique circumstances, and there will be a mechanism to provide details and consider these at a later stage of the process. As Nortel does not have sufficient assets to satisfy all debt obligations owed to creditors, the final claim that will be submitted on your behalf will not be paid to you in full. The value of your entitlement will involve an actuarial calculation to determine the present value of all of your future benefits and entitlements. You will receive a percentage of your entitlement, as will all other creditors of Nortel.

Your actuaries, Segal, continue to work with the company's actuaries to finalize the actuarial models. Actuarial models take each individual through each year of their future lives, determine what benefit is expected to be paid (or earned) if the person is alive and eligible at that age, multiply it by the probability that the person is still alive and eligible at that age, and then discount it back to a present value. The total present value (claim award) is the sum of those

pieces. For a 45-year-old, there will be 20 components - one for each age from 45 through 64 (since LTD stops at 65, there are no benefits payable after that age).

Concurrently, KM Law is working with counsel to the Monitor and Nortel to finalize other legal and procedural details concerning the Compensation Claims Procedure. Once these aspects of the Compensation Claims Procedure have been agreed upon, the entire process will be subject to court approval. Once court approval has been obtained, which is not anticipated to occur for at least several months, you will receive written notification of your individual claim amount and will have an opportunity to review and verify all data before a final claim is submitted on your behalf.

Your preliminary claim amount will be calculated based on information provided by the company and the Monitor, so you will not need to send in individual information, such as your salary, age and your pension plan information, to KM Law. You will, however, have an opportunity at a later stage in the process, to correct the information upon which your claim is based.

Replacement Medical Coverage and Option to Convert Life Insurance

We understand that many of you are very concerned about the future of your medical benefits. Your Representative, her advisors, and representatives of the Monitor and the company are investigating options for future replacement coverage for your medical benefits. It may be possible to use some of your claims proceeds to fund basic ongoing coverage. We are looking into the feasibility and/or availability of this solution, and will report as the process develops.

We also understand that disabled employees are concerned about changes to your life insurance coverage, and that you require information concerning the ability to convert your existing group life insurance policy into an individual policy in the event Nortel's group coverage is discontinued. Your Representative and her advisors are exploring what arrangements or mechanisms are available that would allow you to convert your group coverage, however, it must be noted that the high cost of conversion from a group policy to an individual policy could be prohibitive. We will report to you on this issue as information becomes available.

Future Reports

KM Law reports regularly on the status of the CCAA process through the KM Law website. For more information and to access our latest News Bulletin, please visit our website at www.kmlaw.ca/case-central, and click on Nortel Networks Corporation.

The court-appointed Monitor posts all public court documents and the Monitor's Reports to the Court on its website. To view these documents, please visit the Ernst & Young Inc. website at <http://documentcentre.eycan.com/Pages/Main.aspx?SID=89&Redirect=1>.

If you have an inquiry, or wish to speak to your Representative Counsel, please contact KM Law by email at nortel@kmlaw.ca, or by calling our toll free hotline at 1.866.777.6344. If you are a CAW member, please contact Barry Wadsworth at the CAW at 1.800.268.5763, extension 3776.

Yours truly,

KOSKIE MINSKY LLP

A handwritten signature in black ink, appearing to be 'S. Wadsworth', written over a faint circular stamp or watermark.

Communications Department

C Barry Wadsworth, CAW-Canada
Lee Close, Ernst & Young Inc.