

DISABLED EMPLOYEES PROGRESS REPORT

THIS REPORT HAS BEEN PREPARED BY KOSKIE MINSKY LLP IN THEIR CAPACITY AS REPRESENTATIVE COUNSEL TO THE NON-CAW DISABLED EMPLOYEES OF NORTEL

March 5, 2012

Upcoming Distribution from the Health and Welfare Trust (HWT)

We are pleased to report that on March 2 the Court approved a HWT distribution to the LTD Beneficiaries and Survivors. In January, the court-appointed Representatives through their legal counsel, and the CAW through their legal counsel, asked the Monitor to consider paying a further HWT distribution before all outstanding tax, financial and accounting matters are finalized. The Monitor concluded that it was reasonable to pay such a distribution to the LTD Beneficiaries on account of their income and life benefits (other than pensioner life) and to the Survivors on account of their income benefits, even without a full wind-up of the HWT, and the Court agreed.

The distribution is expected to be paid in mid to late March 2012, and will substantially pay out the remainder of your LTD income and LTD life insurance claims that are owed from the HWT. Please note that there will be no distribution in relation to any remaining pensioner life entitlement at this time.

The upcoming distribution will bring the total of all distributions on these benefits to 35% of the claim value, which exceeds the original estimate of 33.8% that was sent to you in your Beneficiary Estimated Allocation Statement ('BEAS') last year. This further 10% distribution is anticipated to approximate the final distribution for these benefits, but may be subject to a small adjustment once the wind-up of the HWT is complete and a final accounting is made. The adjustment could be in the form of either a further increased distribution from the HWT on these benefits or, if necessary, a deduction from future distributions on pensioner life (if you are entitled to pensioner life) or, if insufficient, from future recoveries against your Compensation Claims in the Nortel estate, whenever these occur. Under no circumstances will you be asked to repay any money. It is hoped that the final HWT wind-up will be complete before the end of 2012, but we cannot be certain that this will occur.

If you would like to obtain information about how much the payment to you will be, please refer to the BEAS that you received last year. If you are an LTD Beneficiary, the proposed distribution will be 10% of the LTD Income, LTD Life and Optional Life Benefits as shown in the left-most column of the BEAS. As was the case in the past, distributions in respect of LTD Income Benefits are not subject to tax. However, taxes will be withheld from distributions made on account of Survivor income benefits, LTD Life Benefits and LTD Optional Life Benefits.

T4, T4A and R1 for Income Tax Filing Purposes

You should have received T4 or T4A slips (or R1 slips if you reside in Quebec), in respect of the various sources of Nortel income that you received in 2011. Depending on the types of payments you received in 2011, you will have received more than one tax slip related to Nortel.

Individuals who received payments in 2011 from Nortel's registered pension plans should have received a tax slip issued by Northern Trust. The Payee name on this slip refers to 'TNTC as paying agent' and also should make reference to the Nortel Networks Pension Plans.

You will receive separate T4A, T4 or R1 slips for other payments you may have received by or through Nortel in 2011, including certain distributions from the Nortel Health and Welfare Trust. Please note that the tax slip(s) you receive will not include any HWT distribution amounts that you received on account of LTD income benefits. Your tax slip will include amounts you received from the HWT on account of LTD Life, LTD Optional Life or Pensioner Life, as these amounts are subject to tax. These tax slips will be mailed on or before February 29, 2012. You should not expect to receive your tax slip(s) related to these payments until early March of 2012. You may have received some or all of your tax slips already.

Wind-Up of the Defined Contribution Pension Plan

The wind-up of Nortel's defined contribution (DC) pension plans is moving forward. The wind-up report has been approved by the Financial Services Commission of Ontario (FSCO). Morneau is in the process of preparing option forms to be issued to members with entitlements under the plan. DC Plan members can expect to receive an option form around April 2012.

Contact Information

If you have an inquiry, or wish to speak to your Representative Counsel, please contact KM by email at nortel@kmlaw.ca or by calling our toll free hotline at 1-866-777-6344. For more information, please visit our website at <http://www.koskieminsky.com/Case-Central>.

Pension-related questions should be directed to the plan administrator, Morneau Shepell. Morneau Shepell's website is at <http://www.morneaushepell.com/> and they also can be reached through the following contacts:

Managerial Plan - 1-877-392-2074
Negotiated Plan - 1-877-392-2073
Email – nortelwindup@morneaushepell.com

For access to a variety of information pertaining to Nortel's CCAA proceedings, including public Court documents and all Monitor's Reports, please visit the Monitor's website at www.ey.com/ca/nortel.

This update has been sent to all Nortel LTD recipients, including those represented by the CAW-Canada, which has reviewed this report. If you are a CAW member, you should direct any questions regarding this report to the legal representative for the CAW – Barry Wadsworth, Associate Counsel, at (416) 495-3776 or by e-mail to linda.cantin@kaw.ca.