

NORTEL DISABLED EMPLOYEE NEWS BULLETIN

**THIS NEWS UPDATE IS PREPARED BY KOSKIE MINSKY LLP (KM)
IN THEIR CAPACITY AS REPRESENTATIVE COUNSEL**

Nous enverrons une traduction de cette lettre dès qu'elle sera disponible.

August 6, 2010

Nortel entered court proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") on January 14, 2009. As a result of the company's insolvency proceedings, there will be changes to your disability income, health, dental & life insurance benefits on December 31, 2010, and to Nortel's pension plans on September 30, 2010 and thereafter. It is therefore important that you remain up to date on these issues by reading the newsletters prepared by your Representative Counsel, by visiting the KM website and by keeping in contact with your court-appointed Representative, Susan Kennedy, and the Canadian Nortel Employees on Long-Term Disability Committee ("CNELTD") Legal Steering Committee.

Please review the sections below for latest developments on issues that are of importance to you as a disabled employee.

ALLOCATION AND DISTRIBUTION OF THE HEALTH AND WELFARE TRUST ASSETS

Background

Nortel established a Health and Welfare Trust ("HWT") through which its benefits programs for both active employees and retirees have been provided since approximately 1980. The treatment and funding of those benefits programs varied over the years, with funds being contributed and reserves established for some kinds of benefits, and for others, costs being covered on a "pay-as-you-go" basis. In the past, retiree life insurance premiums, survivor income benefits and long-term disability income benefits were normally paid from trust assets, while Nortel made "pay-as-you-go" contributions each year for health & dental benefits for its employees (including disabled employees) and pensioners as well as for active employee life insurance premiums. In addition, Nortel paid survivor transition benefits as they fell due.

Allocation & Distribution of the HWT Assets

As provided for in the Settlement Agreement, the parties are working towards a court approved distribution of the HWT in 2010. We expect that the Monitor will make a proposal for the allocation of these assets, and that interested beneficiaries will have an opportunity to make submissions to the Court on that proposal and on the distribution of the assets. Because there is a potential that those positions may conflict due to the uncertainty of the wording in the trust documents, each of the two groups represented by Koskie Minsky have sought independent legal advice with respect to the allocation of the HWT assets. For more information about the independent legal advice being sought by your court-appointed Representative on these issues, please contact Susan Kennedy or other members of the CNELTD Legal Steering Committee.

On December 31, 2009, the assets in the trust were estimated at roughly \$80 million, while the liabilities were considerably higher. More current estimates of the liabilities are not yet available. As the liabilities in the HWT exceed the trust's assets, the distribution will replace only a portion of the lost future benefits that were historically paid from the HWT. Our actuary put evidence before the Court last March that an aggregate distribution based on the HWT financial statement then available would produce a result in the 30% range when considering the benefits which were funded out of the HWT and not on a "pay as you go" basis. We cannot provide any further or more accurate estimates concerning the percentage of recovery that you will receive from the trust assets, as this percentage is dependent on the allocation of trust assets among trust beneficiaries, which is not yet determined and is ultimately subject to Court approval. You will receive notice of such process, and the Court-appointed Representative has demanded that each disabled employee receive an estimate of the amount they will receive through a distribution of HWT assets under the Monitor's proposal.

You will recall that your claim for lost future benefits will be calculated by an actuary, and your claim will be based on the present value of your lost future benefits. The balance of the present value that is not paid through a HWT distribution will form part of your claim against the Nortel estate in the Compensation Claims Procedure.

It continues to be the goal of all parties to achieve the allocation and distribution of the HWT assets before the end of 2010.

STATUS OF HEALTH, DENTAL & LIFE INSURANCE COVERAGE

Health & Dental Benefits Going Forward

As you know, Nortel will cease to pay your health and dental benefits on December 31, 2010. **You must submit your claims by February 28, 2011.** Your court-appointed Representative, the CNELTD steering committee, your Representative Counsel, their advisors and members of the Nortel Retiree and Former Employee Protection Canada ("NRPC") have been looking into options to provide some form of ongoing medical coverage post-December 31, 2010. One option originally being considered was the possibility of establishing a Replacement Health Plan using a portion of your future cash recoveries from Nortel. It has been determined that this option is not viable and it will no longer be considered. Two of the major downsides that influenced this decision were (1) the requirement of cash up front to fund the benefits (which would have been difficult and/or not possible to obtain); and (2) the requirement of mandatory participation for all disabled employees (and also for all retirees). As a result of this decision, it is now clear that each individual who is entitled to health & dental benefits from Nortel will have a claim for that loss made against the Nortel estate as part of their claim in the Compensation Claims Procedure.

Although a Replacement Health Plan funded through future cash recoveries is no longer being considered, the CNELTD and their advisors continue to look into available options for medical coverage after December 31. The CNELTD is working alongside the NRPC on this issue in order to capitalize on economies of scale, among other things. Options being considered include the possibility of locating an insurance provider that will agree to insure your medical benefits without the requirement of a medical assessment and/or

the possibility of conversion from the current group coverage to individual coverage with a provider. We are contacting different providers to determine what options and medical coverage plans may be available. If this type of plan is established, you would be given the option as to whether to participate in this plan and also would be responsible to pay the premiums (premium costs and options for benefit coverage are not yet known).

In light of this new information, you should explore all medical benefit options that are available to you after December 31, which may include your spouse's benefit plan and/or any provincial drug plans for which you may be eligible. Please be sure to submit all claims before February 28, 2011.

COMPENSATION CLAIMS PROCEDURE

Since our last update to you, discussions to finalize the Compensation Claims Procedure have continued and the legal, actuarial and procedural details remain the current focus. Your actuaries (Segal Company) and lawyers (Koskie Minsky) are advising the Court-appointed Representative. All calculations, assumptions and notice forms are being discussed with your actuaries and Koskie Minsky, and are subject to ultimate approval by the Court.

The anticipated process: Before claims are finalized you will receive written notice of your individual claim amounts and will have an opportunity to review the data relevant to your claim, and to correct any existing errors. The package that you receive will explain the process, how your claim was calculated, and will detail each of your claims. You will not have to file your own claim - Koskie Minsky will do that for you. As a disabled employee, you will make a claim for all benefits you are entitled to receive from Nortel now or in the future. Your Representative Counsel is working with your actuaries and the Monitor to ensure that your individual claim includes all entitlements you have lost in the insolvency, including lost disability income benefits, future pension accruals, life insurance (basic and optional to age 65 and retiree life, as applicable), severance and termination pay, transition retirement allowances, any post-retirement benefits you are entitled to receive, and anything else that arises in our review of the documentation. You will receive a letter that will categorize your entitlements, so that you can be certain that none of your entitlements have been overlooked. The contents of the notice, the calculation assumptions and methodologies, and the process will be subject to the court's approval before you receive your claims package.

We anticipate being before the Court for approval of this process in September 2010. Once the process of the Compensation Claims Procedure has been approved, we will move into the individual claim calculation and review stage. You will receive a communication and further instructions at that time. Although we anticipate that you will receive and review your claim in 2010, there will be a number of issues to resolve before the distribution stage is reached. You should not expect a distribution from the Nortel estate before 2011.

UPDATE ON PENSION PLAN ISSUES

Both Nortel's Defined Benefit and Defined Contribution plans will change as of September 30, 2010.

A. THE DEFINED BENEFIT PENSION PLANS

For disabled employees who have an entitlement in Nortel's Defined Benefit pension plans, the future is complicated and to date uncertain. In accordance with the Settlement Agreement, Nortel will cease to administer its pension plans as of September 30, 2010. In the normal course, a pension plan wind-up would involve the appointment of a wind-up administrator by the Financial Services Commission of Ontario ("FSCO") effective October 1. However, Representatives of the NRPC and their advisors continue to explore alternatives to a conventional pension plan wind-up and are seeking support from the Government. The future of Nortel's Defined Benefit pension plans, and the possibility of and timing of plan wind-ups could be affected. Based on a recent estimate, the pension plan is only about 64% funded on a wind-up basis and 76% funded on a solvency basis (including indexing). If you are or will soon become retirement eligible, you should be aware of the possibility that your future pension may be paid at a reduced rate because of this deficiency. If there is a reduction, it will apply to all plan benefits, whether you are already retired or you whether you will retire in the future.

B. THE DEFINED CONTRIBUTION PLANS

Disabled employees who have an entitlement in Nortel's Defined Contribution plan will be able to have the funds that have accumulated in their individual account transferred to a locked-in retirement vehicle. The timing is not yet known. You will experience no loss as a result of Nortel's insolvency. You will have no claim against Nortel for your entitlement in Nortel's Defined Contribution plan.

C. QUESTIONS?

If you have questions about your individual pension and/or retirement please contact the following:

Defined Benefit Plan Members

Mercer -1.866.667.8358

Defined Contribution Plan Members

Sun Life - 1.866.733.8612

STATUS UPDATES

Health and Welfare Trust CRA Advance Ruling Submissions

Tax counsel for all interested stakeholders has been involved in the preparation of written submissions concerning an advance ruling as to the taxability of funds to be distributed from the Health and Welfare Trust. The request for an advance tax ruling has now been submitted to the CRA. The ruling requests that lump sum payments anticipated to be made from the HWT be made without negative tax consequences to

the recipients of the payments. The CRA ruling request relates specifically to certain possible future lump sum distributions from the HWT, being:

- Lump sum payments in connection with termination of rights under the long term disability plan;
- Lump sum payments in connection with the termination of rights under the pensioner group life insurance plan; and
- Lump sum payments in connection with the termination of rights under the survivor income benefit plan or survivor transition benefit plan.

We are uncertain how long it will take the CRA to make its decision on the taxability of the various amounts to be distributed, however, we will advise on the KM website and through written correspondence as developments occur. Information about the ruling, once it has been issued, will be made available on our website. Please note that this ruling will be applicable only to lump sum distributions made from the HWT and not to future distributions from the estate, which will be dealt with separately once we have obtained the first ruling.

Court-Appointed Representative

Since May 27, 2009, Susan Kennedy has been the sole Court-appointed Representative for Nortel's disabled employees, with the exception of those individuals who are represented by the CAW-Canada. The system of a single Court-appointed representative who consults with a steering committee and with members as whole within the time and confidentiality constraints created by the CCAA process is a typical structure in matters of this magnitude, where a number of individuals with the same or similar interests are most effectively represented together. This structure has worked well in other cases. This decision-making structure is also working well in the Nortel CCAA proceeding, where the Court-appointed Representative has been working with a committee to communicate to the constituency and to ensure that important decisions are made on an informed and responsible basis. In his April 8, 2010 endorsement, Justice Morawetz commented positively on the dignified manner in which Ms. Kennedy, among others, has been discharging her functions in difficult circumstances.

Koskie Minsky recently received a request to add two additional Court-appointed representatives for the disabled employee group. This request has been examined, and it has been determined that it is not necessary or advisable to seek a Court appointment of two additional representatives. We are at a critical stage in Nortel's CCAA proceedings in that the allocation of the HWT assets and resulting payments in a tax-effective manner must be dealt with before year end, the compensation claims procedure must be finalized and parties must focus on recovering assets for the Canadian estate in order to maximize the future distribution. Given the overwhelming importance of these issues to the disabled employees, it is far more useful to focus on these issues rather than to expend resources and incur delays engaging in unnecessary procedural steps.

The Court-appointed Representative is grateful to the many disabled employees who have indicated support for her and the Legal Steering Committee that advises her, and thanks them for their continued support of the current system of representation.

Extension of Stay of Proceedings and Employee Hardship Process

On July 16, 2010, the Court granted an extension of Nortel's stay of proceedings in Canada until October 29, 2010. The Court also granted an extension of the Employee Hardship Process until October 29, 2010. Disabled employees are not eligible for the Employee Hardship Process that is currently in place. We have inquired about the possibility of establishing a hardship fund that would apply to disabled employees who experience severe financial hardship after changes to benefits occur on December 31, 2010. We do not yet know whether this is possible but in any event, any such fund would be subject to Court approval. We will advise you of developments as they occur. If you think that in the future you may be in a position of hardship due to high medical costs, you may wish to investigate provincial drug plans in advance of December 31.

Ongoing Asset Sales / Resolution of Intellectual Property Issues

While many of the major asset sale transactions have now been completed, Nortel continues to explore the strategic alternatives to best optimize the value of its residual businesses and assets; including its remaining intellectual property. This is a lengthy process, and there has been no determination as to the form such a recovery would take. KM and financial advisors, Richter, continue to represent the disabled employee, former employee and pensioner constituencies on these issues. The Monitor is aware of our interests and is negotiating, in consultation with our groups, to protect and promote the interests of all Canadian stakeholders. You will be advised of developments.

CONTACT INFORMATION AND UPDATES

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. Please continue to visit the KM website's "Latest Development" section for important developments and for announcements concerning the scheduling of webcasts and information sessions.

Disabled employees who have questions or wish to join the CNELTD should send an email to SteeringCommittee@cneltd.info.

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 disabled employees, including those who are members of the CAW-Canada, which has reviewed this update. If you are a CAW member, you should direct any questions regarding this update to the legal representative for the CAW – Barry Wadsworth, Associate Counsel, at (416) 495-3776 or by e-mail to michelle.bondy@kaw.ca.