

Nortel Settlement Agreement Funding of Pension and Benefits during 2010

February 8, 2010

Nortel, the Monitor and the former employees, including pensioners and the LTD Beneficiaries have entered into a settlement agreement involving the funding of pension and benefits during 2010.

The settlement, which was announced, Monday, Feb 8, 2010, includes the following:

- payment by Nortel of medical, life and dental benefits to pensioners and LTD Beneficiaries is to continue unchanged until December 31, 2010;
- payment by Nortel of income benefits to LTD Beneficiaries, and of survivor income and survivor transition benefits is to be made from Nortel funds on a "pay as you go basis" until December 31, 2010;
- LTD Beneficiaries will maintain status as active employees until December 31, 2010, with termination of employment to occur on that date;
- payment to a maximum of \$3,000 to eligible terminated employees, for a total maximum pool of \$4.2 million;
- the funding of the pension plan, including current and special payment contributions by Nortel to its pension plans will continue to March, 2010.

Thereafter only the continued administration and current service funding by Nortel of its pension plans will continue until September 30, 2010. After September 30, 2010, the administration of the Pension Plans will be transferred in accordance with the Pension Benefits Act and with the agreement of the Financial Services Commission of Ontario ("FSCO" is the provincial regulator for pensions) to a new Administrator. As a consequence, Nortel will cease making payments to the pension as at Sept 30, 2010 and will no longer administer the pension thereafter. At this point, it is not known whether or how soon the pension plan will then be wound up.

- In exchange for the settlement, the Former employees will not oppose a new employee retention program that will be rolled out shortly.
- The claims of all continuing and former employees of Nortel, including pensioners and LTD Beneficiaries, will rank as unsecured claims along with the claims of the ordinary unsecured creditors of Nortel. In other words there will be no argument that employee claims have priority over other unsecured creditors. This confirms the current state of the law regarding employee claims in bankruptcy proceedings.
- There is provision for the release of certain potential claims by specified pension, HWT and benefit parties as against Nortel and certain other specified persons and entities including, without limitation, Nortel's directors and officers and the Monitor, relating to

Nortel's pension plans and the HWT, except for potential claims for fraud and certain potential claims for, among others, misrepresentation.

However the release does not affect claims against Nortel itself for any losses later to be advanced in the claims process, be it for pension, benefits or any other employment-related claims. Nor does it affect a potential claim we have been discussing with respect to the monies currently standing to the credit of the optional life account in the HWT.

The release does confirm that employment-related claims by continuing employees and former employees are however UNSECURED claims against Nortel, which was already the case before this settlement.

- The pending leave to appeal application to the Supreme Court of Canada with respect to the payment of termination and severance claims by the former employees of Nortel will be withdrawn.
- All employee claims will be in the same creditor class as other unsecured creditors of Nortel in any plan of arrangement.

The motion to approve this settlement will be on March 3, 2010.

In order to ensure that all stakeholders have notice of the settlement, on Feb 9, 2010, Nortel will be seeking a motion for approval of a notice procedure for the settlement. Under that process, a notice letter will be sent to all former employees, LTD beneficiaries, unionized employees and continuing employees within 7 days of the date of court approval. The letter will also be published in various newspapers across Canada.

Affected individuals who want to appear and oppose the settlement will have to deliver a notice of appearance by 10:30 am on March 1, 2010. They would then have to appear in person or through their own counsel at their own expense. If individuals do not file a notice of appearance, they cannot appear at the Settlement approval motion and they will be bound by the settlement should it be approved by the Court on March 3, 2010.

While Continuing employees are not a party to the settlement agreement, as counsel for the NCCE we have reviewed the settlement and had input into the language of the Agreement and in particular the provisions regarding its scope. It is our view that the Settlement reached is fair and does not impact our ability to pursue claims against Nortel itself in any future claims process and as such it should not be opposed by continuing employees of Nortel.