

205 PLACER COURT, TORONTO, ONTARIO M2H 3H9
LEGAL DEPARTMENT
TEL: (416) 495-3776 FAX: (416) 495-3786

February 8, 2010

Greetings,

Re: Important Update

As the CAW-Canada Associate Counsel assigned to this matter, I am writing to you because there has been a very important development relating to the Nortel insolvency proceeding. It is very important that you read this entire correspondence. If after reading it all you still have questions regarding some aspect please do not hesitate to contact us.

On February 8, 2010, the CAW-Canada signed an agreement with Nortel on behalf of the retirees and survivors who have signed a retainer with the Union and on behalf of those Nortel employees currently on long-term disability who are members of the Union. Those retirees and LTD recipients represented by Koskie Minsky are also parties to this agreement and that firm has worked with us to ensure that it protects the interests of all those affected.

I refer to the agreement as a "Settlement Agreement", however, **this is NOT a settlement of the full amounts owing to you as a result of your employment with, termination of, employment by, or retirement from Nortel.** Negotiations relating to that process are still ongoing and no claims process has yet been agreed to or approved by the Court. This Settlement Agreement arises out of a motion brought by Nortel on January 21, 2010, regarding the ongoing funding of its Canadian operations.

The Court recently approved the Canadian Funding Agreement ("CFA"), by which certain U.S. based entities loaned funds to Nortel's Canadian companies to ensure their continued operation. However, the CFA did not provide for the continuation of LTD income, retiree/LTD health benefits, life insurance or survivor benefits, past March 31, 2010. Nonetheless, we were successful in having the Court reserve the right to determine what obligations Nortel had to fund these benefits into the future, unless an agreement could be reached between the parties.

This Settlement Agreement does provide for funding past March 31 of this year. Specifically, it provides for the continuation of LTD income and retiree and LTD health benefits until the end of 2010. There will also be continued life insurance for all those eligible, and certain other income and benefits for survivors of retirees/ employees until the end of this year. Nortel has also agreed that it will not draw amounts from the Health and Welfare Trust ("H&WT") for the payment of certain benefits, but will fund these benefits from its own operating accounts. This means that most of the money currently in the H&WT will remain there for distribution later in these proceedings.

The Company will also continue to make payments to reduce the pension deficit until the end of March 2010, and continue its regular monthly pension contributions until the end of September, 2010. The value of the Settlement Agreement is approximately \$57 Million. It must still be approved by the court.



In exchange for the continuation of these payments, we have agreed not to assert that the debts owed by Nortel, as a result of the pension deficit or the cessation of payments from the H&WT after 2010, ranks any higher in the category of unsecured claims than any other unsecured claim. This is unless there is a change in the current *Bankruptcy and Insolvency Act* which permits that assertion. We would then argue that the change in the *Act* applies to our claims.

I must advise that court cases decided under the law as it stands today have generally determined that pension deficits and similar employment related debts do not rank higher than any other unsecured debts in any event. Accordingly, we have not really given up anything, except the possibility of locking up this matter in litigation. That is not and should not be our objective.

The Union believes that this Settlement Agreement is in the best interest of and provides the best measure of protection for those who are the most vulnerable to Nortel's meltdown. The Agreement is the result of countless hours of work by all parties in the face of what could have been a disaster if Nortel been required to cease making income and benefit payments on March 31st of this year. That possibility was very real even a few weeks ago.

We have summarized the most important points of the agreement below:

Medical and Dental Benefits:

- If you are currently receiving a pension, if you are a beneficiary or survivor of a Nortel pensioner, or you are currently in receipt of LTD income, you will continue to receive your medical and dental benefits until December 31, 2010.
- You will be reimbursed for medical and dental services covered under the plan that you receive before January 1, 2011.
- You must submit your medical and dental claims on or before February 28, 2011.
- Life insurance coverage will also continue until December 31, 2010.

Long Term Disability Recipients

- Nortel will continue to pay long-term disability income benefits until December 31, 2010.
- For administrative purposes your employment with Nortel will end on December 31, 2010.
- However, this termination will not affect your ability to make a claim for what you should have received in long-term disability income benefits, medical or dental benefits, or pension losses after January 1, 2011. That right is protected by the Settlement Agreement.

Pension Benefits:

- Nortel will continue to make regular monthly contributions to the pension plan until September 30, 2010.
- The Company will also continue to make payments to reduce the pension plan deficit until March 31, 2010.
- Nortel will stop administering the pension plan as of October 1, 2010.
- As of October 1, 2010, the Financial Services commission of Ontario will appoint a new administrator of the pension plan. Who that will be has not yet been determined.
- This agreement does not affect the pension benefits that you currently receive. However, if the pension plan is wound up by the Financial Services Commission of Ontario at some point in the future, there will likely be an effect on your pension income. What that effect will be cannot be determined at this time.
- Nortel will continue to pay survivor income benefits and survivor transition benefits until December 31, 2010.

Termination Pay

- Over \$4 Million has been set aside for an initial payment of approximately \$3,000 to each of those former employees who have had their employment terminated by Nortel and who have not been re-employed by a successor or received severance pay or bonuses. This payment is “on account” and will reduce the final severance pay claim you are entitled to through the employment related claims process.

The quid pro quo for the continuation of these benefits

- This agreement releases Nortel from liability regarding the Pension Plan or the Health and Welfare Trust **EXCEPT** for claims based on fraud, gross negligence, contractual rights, and/or misrepresentation by the directors or wrongful or oppressive conduct by the directors.
- We will not be allowed to make any claims in relation to the pension deficit, non-payment of future benefits, lost LTD income, or any other employment related claims, including those against the Company or directors, which assert that such claims have a priority over those of other ordinary unsecured creditors, unless there is a change to the *Bankruptcy and Insolvency Act* which allows us to make that assertion.

Ensuring the payments are made

- Until the last of the above noted payments are made there will be a “charge” on Nortel’s property as security for these payments. This charge will ensure that these amounts are paid before almost every other payment is made from Nortel’s assets.

As part of approving the settlement, the Court will order that all pensioners, former employees and disabled employees of Nortel be notified of the agreement’s terms on or before February 16, 2010. The documentation relating to the settlement will be available on the Monitor’s website at www.ey.com/ca/nortel.

The final motion to approve the settlement agreement is scheduled to be heard March 3, 2010. If you are in favour of the agreement you do not need to take any further steps. If you oppose the agreement and intend to appear in Court for that purpose, you must complete a Notice of Appearance, which is available at www.ey.com/ca/Nortel and follow the filing process set out on that document. The Monitor must receive that document by 11:59 P.M. E.S.T. on February 24, 2010. It must be noted that the Union, as a signatory to the agreement, cannot take a position opposing the agreement on your behalf and you will have to represent yourself or seek other counsel for that purpose.

It is our hope that you are able to take some comfort from the fact that there will at least be some certainty regarding your current benefits and income. In the circumstances it is a large accomplishment. Overall, however, we understand that it is a difficult time and hope that you know that we are continuing to press for the best possible resolution in your favour.

On behalf of the CAW-Canada,



Barry E. Wadsworth
Associate Counsel