

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. c-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF NORTEL NETWORKS CORPORATION, NORTEL NETWORKS LIMITED,
NORTEL NETWORKS GLOBAL CORPORATION, NORTEL NETWORKS
INTERNATIONAL CORPORATION AND NORTEL NETWORKS
TECHNOLOGY CORPORATION**

**APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

**AFFIDAVIT OF JOSEPH GREGORY MCAVOY
(Sworn February 28, 2010)**

I, Joseph Gregory McAvoy, of the City of Calgary, in the province of Alberta,
MAKE OATH AND SAY AS FOLLOWS:

1. I am an employee of Nortel Networks Corporation, am currently on long-term disability benefits ("LTD"), am directly affected by the outcome of the proceedings herein, and as such, I have direct knowledge of the matters to which I hereinafter depose, except those I state to be based on information and belief. All these matters, I do verily believe to be true.

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Personal Background

2. I reside in Calgary, Alberta with my wife, Janice (Dignum). We have one daughter, Dana, who is currently enrolled in her second year of an Honours Bachelor of Science programme in Biology at the University of Calgary. Dana lives with us at home while attending university which is funded partly through an RESP, scholarships Dana has received and from income Dana earns as a lifeguard and swimming instructor.

3. I received my university education at the University of Calgary. I first earned a Bachelor of Science degree in physics in 1980 and then went on to earn a Masters degree in science, again in the field of physics, in 1983.

4. On March 27th of 1995, I began my employment with Nortel at the Calgary Wireless Research and Development Centre. My position at that time was Manager of Software engineering from which I was promoted to Senior Manager, Research and Development in 1999.

5. My base salary was \$106,000 per annum, plus various contributions to an employee savings plan, a management profit sharing plan and a stock option plan. Additional benefits included employee defined benefit pension plan, medical and dental plans, life insurance, spousal and dependent life insurance, short and long term disability coverage which, in my last position with Nortel required the employee contribution to go up from 50% to 70%.

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Medical Circumstances Resulting in LTD

6. I was diagnosed with Multiple Sclerosis ("MS") about twenty-five years ago. This disease is incurable and my condition deteriorates every month. In spite of my progressing illness, I continued working at Nortel until I could physically no longer do so.


7. In 2001, as I had clinically definite MS, I applied for and was granted LTD benefits. The LTD benefit to which I was entitled amounted to 70% of my base salary, however, the employee savings plan and stock option plans ceased to apply to me. LTD also includes medical and dental coverage and life insurance for me and my family and contribution to a defined benefit pension plan.

Current Medical and Financial Circumstances

8. MS is a very unpredictable disease and I never know how I will feel. There is no cure for MS, only drugs that may delay progression or relieve symptoms. My disease is so unpredictable that I may end up in long term care. This uncertainty is a major issue and daily stressor.

9. I am currently confined to a wheelchair and have difficulty with mobility and maintaining my bowel and bladder functions. I rarely get out of the house and I am bedridden for most of the day and rely almost entirely upon Janice. Fatigue is a major problem.

10. I recently completed a new drug trial of a drug for secondary progressive MS, however, this drug was not successful. I fully expect that I will require new medications

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in the future as this disease is by definition a progressive one. In the past, I have needed to take immune modulating drugs which can cost in the range of \$20,000-40,000 per annum. There are more than 100 drugs in trials now, all of which will be extremely expensive and may take years before they are approved by provincial health plans.

11. I am currently required to pay approximately \$1,200 per annum in premiums for continuing medical and dental coverage. My annual medical costs are approximately \$7,500, although, as noted, the future may bring the need for different and significantly more expensive drug therapies.

12. I am in need of significant modifications to my house to accommodate my physical needs, including the installation of lifts and ramps and modifications to my kitchen, bedroom and bathrooms. The estimated cost for this work exceeds \$100,000 and none of these modifications have been started because of the uncertainty surrounding the outcome of the within proceedings. We investigated the possibility of public funding for this work, however we do not qualify as we are neither seniors, nor considered to be destitute. I require a power wheelchair, but am required to have the home modifications done before I can qualify for funding such a chair which costs in the range of \$10,000.

13. We feel stuck in a vicious cycle of impossible financial circumstances that should never have occurred. We live very simply now, do not eat out and have not taken a family vacation in years. Janice helps me out when I need direct physical help (i.e. getting in and out of the house, to and from numerous doctor appointments, etc.) and doing the inside and outside household chores that I can no longer perform. She has been out of the workforce for 11 years. While she might be able to secure a job commensurate

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with her abilities and training in Calgary's difficult job market, the expense of hiring attendant care for me to replace her will no doubt cut into that income. This care and attendant cost could become even more expensive in the future as my condition worsens.

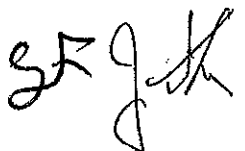
14. The money I currently receive from LTD just covers expenses, including mortgage payments on our home. Losing my medical and dental coverage, my life insurance and my salary replacement will force us into poverty. We will have nothing to live on. We will have no home to live in.

The Settlement Agreement is Unacceptable

15. The February 8, 2010 Settlement ("the Settlement Agreement") for former Nortel and LTD employees requires settlement for a miniscule amount of the Nortel LTD employees' total claim, a denial of many political and legal rights and effectively amounts to a gag order.

16. There are many facts related to the past management of the Health and Welfare Trust ("HWT") from which LTD benefits have been paid which gives us tremendous cause for concern, in terms of accounting irregularities and questions as to the possibility that the terms of the trust were breached. Among those matters that I find particularly shocking is the fact that there is possibly in excess of \$100 million missing from the \$134 million HWT.

17. In these circumstances, it is unacceptable that we, the LTD employees, should be forced to accept a settlement which will preclude us from taking further legal steps in relation to these issues. This is particularly unacceptable, given that we have only just

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obtained these documents and reflects an unacceptable pressure tactic on a group that represents the most vulnerable stakeholders in this process.

18. As I understand the terms of the Settlement Agreement, my LTD benefits will only be paid until the end of this year, whereas I have 8 years until retirement and I know of other LTD employees who have thirty years remaining before retirement. In addition, we are expected to shoulder further losses to our deferred pensions, due to accrual losses.

19. Also worth mentioning with respect to LTD employee deferred pensions is that the current pensioners are being asked to compromise rights that may affect LTD deferred pension claims – two especially important rights being the right to a preferred status, and the right to the pension claim (deemed trust) as a priority claim.

20. Further, as a Nortel Alberta employee, I must point out that non-Nortel-Ontario workers will not be a part of the Ontario pension protection which includes pension backstopping. These are just some of the terms that I and other LTD employees consider to represent unacceptably onerous burdens.

21. LTD employees are also financially disabled. We live on 50-70% of our pre-LTD salary and now face being reduced to only the CPP Disability portion of our monthly LTD payments (which for me currently is about \$1,100/month), plus a very low percentage of our current company LTD monthly payment. Any reduction to our benefits will represent tremendous hardship to this group of individuals. A complete loss of benefits will obviously throw most of us into poverty.

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The Settlement Agreement Process Has Been Unfair to LTD Employees

22. On or about February 8, 2010, a copy of a press release ("the Press Release") was sent by Susan Kennedy, the court-appointed representative for the LTD employees. The Press Release provides only a brief summary of the complex Settlement Agreement. Attached hereto at Exhibit "A" and "B", respectively are true copies of the Press Release and the Settlement Agreement.

23. The Press Release was sent to the Canadian Nortel Employees on LTD ("CNELTD") website. The CNELTD group site was created to share information among Nortel LTD employees but there are only 93 registered members out of Nortel's 409 continuing employees currently on LTD.

24. A different group, Rights for Nortel Disabled Employees ("RFNDE"), immediately disseminated the information via e-mails to its contacts, however, many LTD employees only learned about the Settlement Agreement after receiving a copy of a letter ("the Notice Letter") which provided some explanation of the terms of the settlement and relevant dates (including for a webinar to be held on February 23, 2010) and deadlines.

25. The Notice Letter was to have been sent out by February 16, 2010 to all LTD employees, providing at most, **13 days within which to review the complex documentation, seek independent advice and make an informed decision about whether to oppose the settlement.**

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26. As an Albertan, I did not receive the Notice Letter until the morning of the February 23, 2010 webinar. This letter did not include a copy of the document that had to be filed to appear at the hearing ("the Notice of Appearance"). Attached hereto at Exhibits "C" and "D", respectively, are true copies of the Notice Letter and the Notice of Appearance.

27. Further, neither the Settlement Agreement, Press Release nor the Notice Letter specifies the consequences of opposing the approval and implementation of the settlement. For example, the Notice Letter specifies that the March 3, 2010 motion includes the barring and release of certain claims with respect to the Settlement Agreement, yet it does not provide further details on who is barred or released. Further, counsel representing the former and LTD employees of Nortel, Koskie Minsky LLP, and counsel representing the unionized LTD employees, CAW Canada, have provided conflicting opinions with respect to the opposition of the settlement.

28. The February 23, 2010 webinar consisted of one-way communication, with a screened question and answer period. As noted above, many of the LTD employees would not have received notice of this webinar in a timely manner so that they might participate. Many questions remain unanswered.

29. On or about February 16, 2010, leaders of the RFNDE sent a letter to Mr. Mark Zigler at Koskie Minsky LLP, counsel for the former and LTD employees of Nortel, informing him of problems with the notice and expressing their concerns about the inadequacy of the notice in terms of being sufficient to allow the LTD employees to

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make informed decisions. The letter also requested that Koskie Minsky LLP provide LTD employees, *inter alia*, as follows:

- a) an extension of the March 1, 2010 deadline to submit a Notice of Appearance should an LTD employee wish to oppose the settlement;
- b) an additional date and time for a conference call whereby all LTD employees have the option to participate;
- c) disclosure of relevant documents and information that would allow for LTD employees to obtain meaningful independent legal advice; and
- d) proper factual representation of the LTD employees to be brought before Justice Morawetz, i.e. LTD employees have been characterized as former and ex-Nortel employees, when the correct term is "continuing Nortel employees".

30. A response to the above noted letter was never received from either Mr. Zigler or any other lawyer at Koskie Minsky LLP. Indeed, Koskie Minsky LLP has not engaged in meaningful communication with the majority of LTD employees over the course of this lawsuit, nor with respect to the Settlement Agreement. As a result, the LTD employees have been forced to retain, on extremely short notice, representation to represent their opposition to the Settlement Agreement at the Motion for Approval and Implementing of the Settlement Agreement on March 3, 2010.

31. Based on the above, I do not believe that most LTD employees are able to make an informed decision with respect to the settlement by the court-imposed deadline of March 1, 2010. Further, the notice period is inadequate from a fairness perspective and

SF JKH

does not take into consideration the additional mental and physical challenges that disabled people may face.

32. In addition, the requirements to oppose the settlement are unreasonable as they require litigants to appear in person at the March 3, 2010 hearing. This is not only costly, but also inaccessible and does not take into consideration that we are disabled and living on reduced monthly income. Also, the requirements do not allow for alternative means to oppose settlement, such as written submissions.

33. It is difficult, if not impossible, for many of us to travel in the first place, let alone oppose this settlement in person or through a lawyer. LTD employees are already physically disabled and/or disabled due to chronic illness. No accommodation has been made with respect to this circumstance.

34. Further, many LTD employees are too sick to have been actively involved in this process and have relied entirely on the representation we had been provided through the CCAA process which, as noted above, has not been satisfactory.

35. The Proposed Settlement was made behind closed doors with little input from actively concerned and informed LTD employees. I understand that much of the negotiations and communication about these negotiations to us, the LTD employees, was hampered by non-disclosure agreements, particularly about issues related to the HWT and its significant underfunding, among other issues. It was only in the past few days that we have learned some of these troubling details.

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36. To make matters worse, I now understand that in the last couple of days, Koskie Minsky is advising this group of vulnerable individuals that they will lose all rights if they object to the settlement. In the circumstances of this complex case which directly threatens so many disabled individuals, I do verily believe that these sorts of strong arm tactics are out of place and should be sanctioned by the court.

37. I, along with many other LTD employees, believe that the Monitor has not provided adequate information to the judge with respect to the following issues:

- the recently discovered massive shortfall in the HWT; and
- questions as to why the HWT trustee has not met or has not been forced by Nortel to meet its obligations under the original trust documentation for full funding of all liabilities.

38. I swear this affidavit in support of a motion for, *inter alia*, a representation Order permitting Rochon Genova LLP to act on behalf of the Nortel LTD employees, an adjournment of the Settlement Approval Hearing and/or, in the alternative, to oppose the Settlement Agreement, and for no other purpose.

SWORN BEFORE ME at the City of
Calgary, in the Province of Alberta,
this 25 day of February, 2010.

A Commissioner for Taking Affidavits

SHAUN FLANNIGAN
Barrister and Solicitor

Joseph Gregory McAvoy
JOSEPH GREGORY MCAVOY

SR JJK

This is Exhibit A referred to in the
affidavit of Joseph Gregory McAvoy
sworn before me this 28th day
of February, 2010.



A Commissioner for Taking Oaths

SHAUN FLANNIGAN
Barrister and Solicitor



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CNELTD Announces Negotiated Deal with Nortel and the Monitor

Media Release: For release on February 08, 2010

Ottawa: - Following court approval of the final Canadian Funding Agreement, the Legal Steering Committee of the Canadian Nortel Employees on Long Term Disability (CNELTD) announces that the Court-Appointed Representative for Nortel's disabled employees, Susan Kennedy, along with the Court-Appointed Representatives of the pensioners and former employees of Nortel (Don Sproule, Michael Campbell, David Archibald) (the "Representatives"), and their counsel, Koskie Minsky LLP, have negotiated a deal to ensure the continuation of benefits through 2010. The details of the Agreement, which is subject to court approval, will be available on the Monitor's website at www.ey.com/ca/nortel. The Agreement requires the payment by Nortel of an estimated \$57 million through 2010 to ensure:

- continuation of disability income benefits, medical, life and dental benefits for disabled employees until December 31, 2010;
- for all defined benefit pension plan members, including those on long term disability, continuation and current service funding of the pension plans until the end of September, 2010;
- continuation of medical, life and dental benefits to pensioners until December 31, 2010;
- continuation of survivor income and survivor transition income benefits until December 31, 2010;
- a lump sum payment of up to \$3,000 to eligible employees terminated without severance pay as an advance against their claims under CCAA, to a total maximum of \$4.2 million;

With the exception of retiree life benefits, none of these payments will be made from the health and welfare trust assets. The Agreement does not affect the discussions that are already underway to determine the allocation of the assets in the health and welfare trust, and we anticipate a resolution of the allocation of those trust assets prior to December 31, 2010.

The employment of disabled employees will be formally terminated effective December 31, 2010, but that will not diminish their right to make claims against Nortel in the insolvency proceedings.

According to Susan Kennedy, "The disabled employees were very worried about the possibility of losing their income and their health benefits when funding under the Canadian Funding Agreement was to end on March 31, 2010. The continuation of these benefits through 2010 is a welcome relief.

Among the many benefits of the deal, it gives us:

- a priority cash distribution ahead of other Canadian creditors, without giving up our rights to claim preferred creditor status if the BIA is amended, and without depleting the assets of the Health and Welfare Trust to pay our income benefits;

- a significant period of certainty and stability to plan for the future, and an opportunity to continue our work with the NRPC to explore ways to continue a very basic group health plan after December 31, 2010; and
- time for the Ontario Government to implement the Ontario Pension Agency (OPA), which could increase the value of our pensions.

We expect that the allocation of the assets in the Health and Welfare Trust during 2010 will provide disabled employees with a source of income while the rest of the claims process unfolds.

The Agreement also contains an acknowledgment that the claims of disabled, continuing and former employees and pensioners of Nortel are unsecured claims, and rank in equal priority with those of all other unsecured creditors, including the bondholders. If Nortel and its creditors later become subject to the *Bankruptcy and Insolvency Act*, this Agreement will not restrict us from arguing that the provisions of that Act will apply, including any priorities then in place.

Further, there is an agreement by the disabled employees, pensioners and former employees not to pursue claims based on the administration or funding of the pension plan or health and welfare trust against Nortel (in its capacity as administrator), the trustee of the health and welfare trust, and Nortel's directors. Claims for fraud, and misrepresentation against the directors, are expressly preserved. Finally, in recognition of the priority payments from the \$4.2 million pool for terminated employees, the Representatives will abandon their litigation in the Supreme Court of Canada seeking minimum standards severance payments.

A letter describing the settlement will be sent to all disabled employees, pensioners and former employees of Nortel on or before February 16, 2010. A package containing further details of the Agreement will be available from the website of the Monitor at www.ey.com/ca/nortel or the website of Representative Counsel at www.kmlaw.ca by February 11, 2010. The Representatives will hold a webinar with an audio-only option for disabled employees without internet access on February 23 to explain the Agreement and its impact.

A motion before the CCAA judge to approve the Agreement has been scheduled for March 3, 2010. If you intend to appear and oppose the agreement in Court, a Notice of Appearance in the prescribed form, which will be available at www.ey.com/ca/Nortel on or before February 11, must be submitted to the Monitor and the Monitor's counsel as detailed on that document.

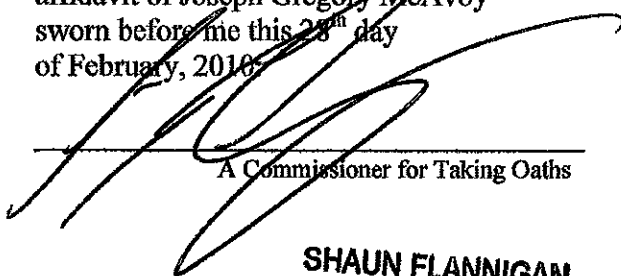
If you wish to oppose the Agreement, you must ensure that the Monitor receives your Notice of Appearance by 11:59 p.m. EST on February 24, 2010. If you wish to appear in court to oppose the Agreement, you must do so as an independent party at your own expense.

The CNELTD Legal Steering Committee and the Representative fully support the Agreement as it reduces the uncertainty for the disabled employees about their benefits in 2010 and gives them more time to prepare for their futures after Nortel's insolvency.

Media contacts:

Susan Kennedy 613-620-1708 (English)
 Johanne Berube 613-523-8185 (French or English)
 Kevin LeBlanc 613-820-9423 (French or English)

This is Exhibit B referred to in the
affidavit of Joseph Gregory McAvoy
sworn before me this 28th day
of February, 2010:



A Commissioner for Taking Oaths

SHAUN FLANNIGAN
Barrister and Solicitor



SETTLEMENT AGREEMENT

THIS AGREEMENT made as of the 8th day of February, 2010

AMONG :

NORTEL NETWORKS CORPORATION, NORTEL NETWORKS LIMITED, NORTEL NETWORKS TECHNOLOGY CORPORATION, NORTEL NETWORKS INTERNATIONAL CORPORATION, NORTEL NETWORKS GLOBAL CORPORATION

(collectively, "Nortel" and individually a "Nortel Entity")

- and -

ERNST & YOUNG INC., solely in its capacity as monitor in the CCAA proceedings of Nortel and not in its personal capacity

(the "Monitor")

- and -

DONALD SPROULE, DAVID ARCHIBALD and MICHAEL CAMPBELL, court appointed representatives of the Nortel Former Employees (as hereinafter defined)

(the "Former Employees Representatives")

- and -

SUE KENNEDY, court appointed representative of the Represented LTD Beneficiaries (as hereinafter defined)

(the "LTD Representative")

- and -

KOSKIE MINSKY LLP, court appointed counsel to the Former Employees of Nortel and the Represented LTD Beneficiaries

("Representative Counsel")

- and -

**NATIONAL AUTOMOBILE, AEROSPACE,
TRANSPORTATION AND GENERAL WORKERS
UNION OF CANADA (CAW-Canada) and its Locals 27,
1525, 1530, 1837, 1839, 1905 and/or 1915 and George
Borosh et al.**

("CAW")

A. RECITALS

WHEREAS Nortel filed for and obtained protection under the *Companies' Creditors Arrangement Act* ("CCAA") by order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated January 14, 2009, as amended and restated (the "Initial Order");

AND WHEREAS by Order of the Court dated May 27, 2009, the Former Employees Representatives were appointed representatives of all former employees, including pensioners, of Nortel or any person claiming an interest under or on behalf of such former employees or pensioners and surviving spouses in receipt of a Nortel pension, or group or class of them, other than (a) those represented by counsel to the CAW, and (b) those who elected pursuant to the requirements of such Order not to be bound by such Order (the individuals in respect of whom the Former Employees Representatives were appointed pursuant to such Order, are referred to herein as the "Nortel Former Employees");

AND WHEREAS certain employees and former employees of Nortel are represented by counsel to the CAW;

AND WHEREAS by Order of the Court dated July 30, 2009, the LTD Representative was appointed representative of those employees of Nortel who are currently not working due to an injury, illness or medical condition in respect of which they are receiving or entitled to receive disability income benefits by or through Nortel, and who may assert an existing or future claim for payment, reimbursement or coverage arising in connection with their employment with Nortel or termination thereof, a pension or benefit plan sponsored by Nortel, including in relation to medical, dental, long-term or short-term disability benefits, life insurance or any other benefit, obligation or payment to which such person (or others who may be entitled to claim under or through such person) may be entitled from or through Nortel, other than (a) those individuals who are currently employed and whose benefit or other payments, as described above, arise directly or inferentially out of a collective agreement between any Nortel Entity and the CAW, and (b) those individuals who elected pursuant to the requirements of such Order not to be bound by such Order (the individuals in respect of whom the LTD Representative was appointed pursuant to such Order are referred to herein as the "Represented LTD Beneficiaries");

AND WHEREAS Representative Counsel was appointed as counsel to the Nortel Former Employees and the Represented LTD Beneficiaries by Court orders dated May 27, 2009 and dated July 30, 2009, respectively, for the purpose of, among other things, settling or compromising the claims of the individuals they represent;

AND WHEREAS the parties to this Settlement Agreement (the "Parties") have reached an agreement for the benefit of Nortel and all of its stakeholders, as well as the Official Committee of Unsecured Creditors of Nortel Networks Inc. and certain of its affiliates in the chapter 11 proceedings before the U.S. Bankruptcy Court for the District of Delaware (the "UCC") and the Informal Nortel Noteholder Group (the "Bondholder Committee") regarding certain issues related to, among other things, Nortel's Pension Plans, HWT (both as defined below) and certain employment related issues (collectively, the "Settlement"); and

NOW THEREFORE for value received (the receipt and sufficiency of which are hereby acknowledged), the Parties agree as follows:

B. BENEFITS AND EMPLOYEES

1. For the remainder of 2010, Nortel shall continue in accordance with current practice to pay medical and dental benefits and life insurance benefits to Nortel pensioners and their beneficiaries and survivors, whether or not represented by Representative Counsel, and for greater certainty, including without limitation all of the individuals referenced in paragraphs (a) and (b) of the second recital above (collectively, the "Pensioners") and the Nortel employees receiving or who become entitled during 2010 to receive long term disability benefits, whether or not represented by Representative Counsel, and for greater certainty, including without limitation all of the individuals referenced in paragraphs (a) and (b) of the fourth recital above (collectively, the "LTD Beneficiaries") in accordance with the current benefit plan terms and conditions. The Pensioners and the LTD Beneficiaries shall be referred to collectively as the "M&D Beneficiaries". Medical and dental benefits to be paid to the M&D Beneficiaries shall be funded solely from Nortel's funds on a "pay as you go basis" in respect of benefits for the coverage period ending December 31, 2010 (the "Medical and Dental Payments"), provided that no Medical and Dental Payments claims submitted after February 28, 2011 shall be accepted, honoured or paid. Life insurance benefits to the M&D Beneficiaries shall continue unchanged until December 31, 2010 and shall be funded in the same manner as for 2009 (the "Life Insurance Benefits"). For greater certainty, no Medical and Dental Payments or Life Insurance Benefits shall be paid by Nortel for any benefit coverage period following December 31, 2010.
2. Nortel shall pay income benefits to the LTD Beneficiaries and to those people receiving or who become entitled during 2010 to receive survivor income benefits and survivor transition benefits under Nortel benefit plans (as such plans exist at the date of this Settlement Agreement) solely from Nortel funds on a "pay as you

go basis" for benefits in respect of the coverage period from January 1, 2010 to December 31, 2010 (the "Income Payments"). For greater certainty, no Income Payments shall be paid by Nortel for the benefit coverage period following December 31, 2010.

3. Upon the satisfaction of all of the conditions in paragraph 1.1 of this Settlement Agreement, Nortel shall create a pool of \$4.3 million (inclusive of Representative Counsel's costs in respect of the motion for leave to appeal referred to in paragraph B.4 below to a maximum of \$100,000.00, based on documented and reasonable fees and disbursements) (the "Termination Fund") to be set aside for employees and former employees of Nortel whose employment has been terminated or is terminated prior to or on June 30, 2010 to whom amounts are or may become owing for termination or severance payments, who have not been offered employment with a purchaser of Nortel's assets and who have not received or are not entitled to receive (i) gross cumulative Annual Incentive Plan payments from and after October 1, 2009 of \$3,000.00 or more; or (ii) a Key Employee Incentive Plan or Key Employee Retention Plan payment in 2009; or (iii) payment from any Court approved equivalent 2010 plan. Each such individual shall be paid a maximum of \$3,000.00 (subject to applicable withholding taxes) from the Termination Fund (the "Termination Payments"). Any Termination Payments paid to such individuals shall be credited against allowed claims of such individuals and such claims shall be correspondingly reduced. To the extent that funds are unused in respect of terminations prior to or on June 30, 2010, or payment of Representative Counsel's costs referred to above, the Termination Fund may be used to make payments on account of terminations after June 30, 2010. If such unused funds are to be used for another purpose, such purpose shall be approved by the Court, on such basis as is agreed to between Representative Counsel and the Monitor.
4. Upon the issuance of an order by the Court approving this Settlement Agreement in its entirety, including all schedules thereto, and upon the expiry of all appeals and rights of appeal in respect thereof (the "Final Approval Order"), Representative Counsel shall promptly withdraw their application for leave to appeal the decision of the Court of Appeal, dated November 26, 2009, to the Supreme Court of Canada (the "Leave Application") on a with prejudice basis. No claim for costs in respect of the Leave Application shall be made by or against Nortel, or any creditor participants (including the UCC and the Bondholder Committee).
5. The employment of the LTD Beneficiaries shall terminate on December 31, 2010. However, such termination shall not affect in any manner any rights the LTD Beneficiaries or anyone claiming through them may have, either under a collective agreement, at common law or pursuant to any statute in relation to ordinary unsecured claims against Nortel arising out of their employment or termination thereof, including but not limited to claims for future lost long term

disability or income continuation benefits, pension benefits or pension benefit accruals, and medical, dental and life insurance benefits, nor should affect in any manner their ability to participate in any program of benefits for which they are eligible that is established as a successor to the plans in which they currently participate. For greater certainty, such claims, to the extent they are allowed as claims against Nortel pursuant to any claims adjudication procedure established in these proceedings, shall rank as ordinary unsecured claims on a *pari passu* basis with the claims of the ordinary unsecured creditors of Nortel. Nothing in this paragraph will affect the rights of the LTD Beneficiaries to make claims in respect of the HWT (as defined below).

C. HEALTH AND WELFARE TRUST

1. **Resolution:** The Parties will work towards a Court approved distribution of the Health and Welfare Trust ("HWT") corpus in 2010 to its beneficiaries entitled thereto and the resolution of any issues necessarily incident thereto. For greater certainty, nothing in this Settlement Agreement affects the determination on any basis whatsoever of the entitlement of any beneficiary to a distribution from the corpus of the HWT. Any fees or expenses incurred in connection with any dispute or litigation among the beneficiaries of the HWT concerning entitlement (including without limitation all legal, actuarial and other fees and expenses of the trustee of the HWT and other service providers of the HWT) shall not be paid by Nortel, but shall be paid by the HWT corpus. For greater certainty, such fees or expenses shall not include those of the Monitor and incurred by Nortel in connection with any motion for termination of the HWT or for directions with respect to the HWT, which shall be paid by Nortel.
2. **Ranking:** The CAW, Representative Counsel, the LTD Representative and the Former Employee Representatives (the "Representatives") agree, on behalf of those they represent and on their own behalf, that in respect of any funding deficit in the HWT or any HWT related claims (the "HWT Claims"), in these proceedings or in any subsequent receivership or bankruptcy proceedings, or in any other proceedings, or in any other forum whatsoever concerning Nortel, any of the entities listed in Schedule "A" (collectively the "Nortel Worldwide Entities" and individually, a "Nortel Worldwide Entity") or the HWT, they shall not advance, assert or make any claim that any HWT Claims are entitled to any priority or preferential treatment over ordinary unsecured claims, including without limitation that they rank as priority claims against Nortel or any Nortel Worldwide Entity, or are the subject of a constructive trust or trust of any nature or kind in respect of the property and assets of Nortel or any Nortel Worldwide Entity, nor shall they take any action or support any party, person or entity, directly or indirectly, who advances, asserts or makes such claims, and such claims, to the extent allowed against Nortel pursuant to any claims adjudication procedure established in these proceedings, shall rank as ordinary unsecured

claims on a *pari passu* basis with the claims of the ordinary unsecured creditors of Nortel.

D. REGISTERED PENSION PLANS

1. **Administration:** Nortel shall continue to administer the Nortel Networks Negotiated Pension Plan (Registration No. 08587766) and the Nortel Networks Limited Managerial and Non-Negotiated Pension Plan (Registration No. 0342048) (collectively, the "Pension Plans") until 11:59 p.m. on September 30, 2010. For greater certainty, Nortel Networks Limited shall remain the administrator (as defined in the *Pension Benefits Act*) of the Pension Plans until 11:59 p.m. on September 30, 2010. Neither Nortel nor the Monitor will take any steps to initiate a wind up, in whole or in part, of the Pension Plans with an effective date prior to September 30, 2010 at 11:59 p.m. Nortel shall cease to administer the Pension Plans on September 30, 2010 at 11:59 p.m. and thereafter shall have no further responsibility or liability for administration thereof (including any windup). So long as Nortel continues to administer the Pension Plans, there shall be no change whatsoever to the plan terms of the Pension Plans without the approval of the Court, and no change to the current asset mix or investment policies with respect to the Pension Plans other than at the request, and with the consent, of the Representative Counsel and the approval of the Court.
2. **Payments:** Nortel shall continue to make contributions to the Pension Plans in the same manner as it has been doing over the course of the proceedings, under the CCAA, through to March 31, 2010, and for greater certainty, shall continue to make all current service payments and special payments related to the Pension Plans through that date in accordance with the last actuarial valuation for the Pension Plans filed with the Financial Services Commission of Ontario in the aggregate amount of \$2,216,254.00 per month (the "March Pension Payments"). Thereafter and through to September 30, 2010, Nortel shall make only current service payments to the Pension Plans in the aggregate amount of \$379,837.00 per month (the "September Pension Payments"). For greater certainty, Nortel shall not make any special payment contributions to the Pension Plans after March 31, 2010. The March Pension Payments and the September Pension Payments shall be referred to collectively as the "Pension Payments". Nortel shall not make any payments or contributions whatsoever to the Pension Plans after September 30, 2010, except in respect of any claims in respect of the Pension Plans allowed against Nortel (which claims shall rank on a *pari passu* basis with the claims of the ordinary unsecured creditors of Nortel) pursuant to any claims adjudication procedure established in these proceedings. Neither Nortel, nor any Nortel Worldwide Entity shall have any obligation or liability regarding any contributions, fees, indemnities, charges or costs of any kind in respect of the administration of the Pension Plans after September 30, 2010. For greater certainty, nothing in this paragraph affects any obligation or liability of Nortel regarding any contributions, fees, indemnities, charges or costs of any kind in

respect of the administration of the Pension Plans before 11:59 p.m. on September 30, 2010.

3. Transition: With the assistance of the Monitor, Nortel shall use reasonable efforts to cause all books, records, data and other information relating to the Pension Plans or beneficial to the administration or winding-up of the Pension Plans in the possession or control of Nortel to be consolidated in Toronto, Ontario, Canada by no later than March 31, 2010. The Monitor and Nortel shall take all reasonable steps, at the sole cost and expense of Nortel, to complete the orderly transfer of the records of administration of the Pension Plans to a new administrator appointed by the Superintendent of Financial Services (the "Superintendent"), on September 30, 2010 (the "New Administrator"). Any non-compliance or allegation of non-compliance by Nortel or the Monitor under this paragraph D.3 shall have no effect on the enforceability or effectiveness of any other provision of this Agreement.

E. RANKING OF PENSION CLAIMS

1. The Representatives agree on behalf of the members of the Pension Plans their and beneficiaries and surviving spouses who are entitled to benefits from the Pension Plans and whom they represent and on their own behalf (collectively, the "Pension Claimants") that in respect of any claim for payment of or damages related to any solvency or wind up deficiencies, unfunded liabilities, or unpaid or accrued contributions (including, for greater certainty, any special payments whatsoever), any liability regarding the Pension Benefits Guarantee Fund (the "PBGF") or any obligation of or claim arising against any person with respect to the Pension Plans or the administration thereof (the "Pension Claims"): (a) no Pension Claims shall enjoy any priority in any manner over the claims of ordinary unsecured creditors made against Nortel; (b) the Pension Claimants hereby waive, and shall not directly or indirectly assert, advance, re-assert or re-file any claims or initiate any legal proceedings or actions of any nature or kind in these proceedings or in any subsequent receivership or bankruptcy proceedings, or in any other proceedings, or in any other forum whatsoever concerning Nortel or any Nortel Worldwide Entity or the Pension Plans, that the Pension Claims or any part thereof rank as a priority claim over the claims of ordinary unsecured creditors, as a trust (whether deemed or otherwise) or a lien or charge (hereinafter referred to as a "lien"), or under any other legal or equitable theory; and (c) the Pension Claimants shall not support, directly or indirectly, any application, claim or action by Nortel, in its capacity as administrator of the Pension Plans, the New Administrator, any successor administrator howsoever appointed, the Superintendent, as the administrator of and on behalf of the PBGF, or any other person or entity, to directly or indirectly assert, advance, re-assert or re-file any claims or initiate any legal proceedings or actions of any nature or kind in these proceedings or in any subsequent receivership or bankruptcy proceedings, or in any other proceedings, or in any other forum whatsoever concerning Nortel or any

Nortel Worldwide Entity or the Pension Plans, that the Pension Claims or any part thereof rank as a priority claim over the claims of ordinary unsecured creditors, as a trust (whether deemed or otherwise) or a lien, or under any other legal or equitable theory, and such claims shall be treated as ordinary unsecured claims, and for greater certainty, any such claims, to the extent allowed against Nortel pursuant to any claims adjudication procedure established in these proceedings, shall rank on a *pari passu* basis with the claims of the ordinary unsecured creditors of Nortel.

2. That portion of any proofs of claim already or hereafter filed by the Superintendent as the administrator of and on behalf of the PBGF, by Nortel or by any person claiming that any payments by the PBGF or that the Pension Claims or any part thereof rank as a priority or preferential claim over the claims of ordinary unsecured creditors of Nortel, as a trust (whether deemed or otherwise) or a lien, or under any other legal or equitable theory shall be disallowed, but only to the extent that they claim such priority or preference, and such disallowance shall not be opposed or appealed, directly or indirectly, by such claimants. For greater certainty, such disallowance shall not otherwise affect the quantum or validity of such claims, which shall rank as ordinary unsecured creditors on a *pari passu* basis with the claims of the ordinary unsecured creditors of Nortel, in each case, to the extent allowed against Nortel pursuant to any claims adjudication procedure established in these proceedings.

F. NON-OPPOSITION

1. The Representatives agree, on their own behalf and on behalf of those they represent, that they shall not oppose, directly or indirectly, any employee incentive program, including any charge therefor, that is determined by the Monitor to be reasonable and necessary for the continued operation of Nortel. They further agree that they shall not oppose, directly or indirectly, the creation of a trust with respect to claims or potential claims against persons who accept directorships of a Nortel Worldwide Entity in order to facilitate the restructuring, provided that: (i) such trust is approved and recommended by the Monitor; (ii) no part of the corpus of the trust may be used to pay bonuses or any other compensation to the directors; and (iii) any corpus of the trust remaining on the termination of the trust reverts to Nortel.

G. RELEASE AND CHARGE

1. The CAW, the LTD Representative and the Former Employees Representatives agree on their own behalf and on behalf of the Pension Claimants and the beneficiaries of the HWT who they represent (collectively, the "Pension HWT Claimants") that each of the trustees of the HWT, the Monitor, and all members of Pension Plans' committees, (in their personal capacity), and their respective officers, directors, employees, agents, members, legal counsel, financial advisors,

and each of the heirs, executors, administrators, legal representatives, successors and assigns of each of the foregoing and the officers, directors, employees, agents, members, legal counsel, financial advisors of Nortel and the Nortel Worldwide Entities and each of the heirs, executors, administrators, legal representatives, successors and assigns of each of the foregoing (collectively, the "Releasees"), are hereby released, discharged and remised from any and all direct and indirect claims (contingent, liquidated or unliquidated, proven or unproven, known or unknown, in the nature of damages or otherwise, whether or not asserted and whether arising by contract, agreement (whether written or oral), under statute, civil law, common law, or in equity, or otherwise in any jurisdiction) related to (i) the Pension Plans, including without limitation, the administration of the Pension Plans, any obligation to assert or advance in these proceedings, or in any subsequent receivership or bankruptcy proceedings or in any other proceedings or in any other forum whatsoever concerning Nortel, any Nortel Worldwide Entity or the Pension Plans, any priority claim, as a trust (whether deemed or otherwise) or a lien, the funding of the Pension Plans (including any obligation to contribute to the Pension Plans except as required by this Settlement Agreement) and the investment of the Pension Plan assets; and (ii) the HWT, including without limitation, the administration of the HWT, the funding of the HWT, any obligation to contribute to the HWT and the investment of the HWT assets, provided that nothing herein shall release a director of Nortel from any matter referred to in subsection 5.1(2) of the CCAA or with respect to fraud on the part of any Releasee, with respect to that Releasee only.

2. The CAW, the LTD Representative and the Former Employees Representatives agree on their own behalf and on behalf of the Pension HWT Claimants that Nortel and the Nortel Worldwide Entities and their respective successors and assigns (collectively, the "Nortel Releasees") are hereby released, discharged and remised from any and all direct and indirect claims (contingent, liquidated or unliquidated, proven or unproven, known or unknown, in the nature of damages or otherwise, whether or not asserted and whether arising by contract, agreement (whether written or oral), under statute, civil law, common law, or in equity, or otherwise in any jurisdiction) that the Pension Claims and the HWT Claims, or any part thereof, rank as a preferential or priority claim over the claims of ordinary unsecured creditors of Nortel, as a trust (whether deemed or otherwise) or a lien, or under any other legal or equitable theory. For greater certainty, notwithstanding the foregoing, nothing in this Settlement Agreement shall release or discharge the Nortel Releasees from any Pension Claims and HWT Claims to the extent such claims are allowed as ordinary unsecured claims against the Nortel Releasees pursuant to any claims adjudication procedure established in these proceedings.
3. In furtherance of the foregoing and in order to ensure that this constitutes a true settlement of the subject matter hereof, the Pension HWT Claimants agree that they shall not assert, advance or make any claims of any nature whatsoever

against any person or entity whatsoever that could reasonably be expected to result in a claim over (including, without limitation, a claim for contribution or indemnity) being made against any of the Releasees or the Nortel Releasees with respect to the subject matter of the release provisions of this Settlement Agreement.

4. The M&D Beneficiaries and former employees entitled to payment from the Termination Fund shall be entitled to the benefit of a charge on Nortel's Property (as defined in the Initial Order) to secure payment of the Medical and Dental Payments, Income Payments, Termination Payments and Pension Payments (the "Payments Charge"), which Payments Charge shall not exceed an aggregate amount of FIFTY-SEVEN MILLION DOLLARS (\$57,000,000.00) and which Payments Charge shall rank subordinate in priority to the Inter-company Charge (as defined in the Initial Order). The Payments Charge shall apply in these proceedings and in any subsequent bankruptcy or receivership. The maximum amount secured by the Payments Charge shall be reduced as the Medical and Dental Payments, Income Payments, Termination Payments and Pension Payments are paid by an amount equal to each such payment made. Once the last payment is made, the Monitor shall file a certificate (the "Monitor's Certificate") with the Court certifying that the terms of the Settlement have been complied with by Nortel, and the Payments Charge shall automatically terminate and be extinguished by the filing of the Monitor's Certificate.

H. CCAA PLAN OR SUBSEQUENT BANKRUPTCY

1. The Representatives agree on their own behalf and on behalf of the Pension HWT Claimants that under no circumstances shall any CCAA Plan of Arrangement in the Nortel proceedings (the "Plan") be proposed or approved if: (i) the Plan provides for separate classification of any Pension HWT Claimants from ordinary unsecured creditors of Nortel, including, without limitation, bondholders and Nortel Networks Inc.; or (ii) the Pension HWT Claimants and the other ordinary unsecured creditors of Nortel do not receive the same *pari passu* treatment of their allowed ordinary unsecured claims against Nortel pursuant to the Plan.
2. Notwithstanding anything else in this Settlement Agreement, including for greater certainty paragraph G.2 hereof, in the event of a bankruptcy of Nortel, if there is an amendment to any provision of the *Bankruptcy and Insolvency Act* that changes the current, relative priorities of the claims against Nortel, no party is precluded by this Settlement Agreement from arguing the applicability or non-applicability of any such amendment in relation to any such claim.

I. CONDITIONS

1. This Settlement Agreement is conditional upon (i) Nortel obtaining the Final Approval Order substantially in the form attached as Schedule "B" with such changes as the parties may agree to, acting reasonably; (ii) the Superintendent in

his capacity as administrator of the PBGF, Nortel and the Monitor executing the letter attached as Schedule "C"; and (iii) the Leave Application having been withdrawn on a with prejudice basis.

2. It is the intention of the Parties that these terms be binding upon, and enure to the benefit of the Pension HWT Claimants, the Releasees and the Nortel Releasees, and that: (i) as beneficiaries hereof, the Releasees and the Nortel Releasees shall be entitled to rely upon and to seek the enforcement of these terms, which cannot be varied without further order of the Court on full and proper notice to them; and (ii) the ordinary unsecured creditors of Nortel shall be entitled to rely upon and benefit from the provisions and agreements herein and to seek their enforcement, which provisions and agreements cannot be varied without further order of the Court on full and proper notice to them.

J. GENERAL

1. The Monitor shall post the motion record for approval of the Settlement, including the Settlement Agreement and the proposed Final Approval Order on the Monitor's website at www.ey.com/ca/Nortel and on the website of Representative Counsel at www.kmlaw.ca.
2. The Representatives, the Representative Counsel and the CAW shall co-operate with Nortel and the Monitor on all communications related to this settlement, as required.
3. This Settlement Agreement will be governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. The Parties hereby irrevocably consent and submit to the non-exclusive jurisdiction of the Ontario Superior Court of Justice and waive any objection based on venue or forum non conveniens with respect to any action commenced in connection with this Settlement Agreement.
4. This Settlement Agreement may be executed in any number of counterparts (including by way of facsimile and PDF) and all of such counterparts taken together will be deemed to constitute one and the same instrument.

[Signature pages to follow]

IN WITNESS WHEREOF the Parties have duly executed this Agreement as of
the date first written above:

NORTEL NETWORKS CORPORATION

Per: 

Name: Anna Ventresca
Title: General Counsel-Corporate and
Corporate Secretary

Per: 

Name: John Doolittle
Title: SVP Finance and Corporate
Services

NORTEL NETWORKS LIMITED

Per: 

Name: Anna Ventresca
Title: General Counsel-Corporate and
Corporate Secretary

Per: 

Name: John Doolittle
Title: SVP Finance and Corporate
Services

**NORTEL NETWORKS TECHNOLOGY
CORPORATION**

Per: 

Name: Anna Ventresca
Title: Secretary

**NORTEL NETWORKS INTERNATIONAL
CORPORATION**

Per: 

Name: John Doolittle
Title: President

Per: 

Name: Anna Ventresca
Title: Secretary

**NORTEL NETWORKS GLOBAL
CORPORATION**

Per: _____

Name: Anna Ventresca

Title: Secretary

John Doolittle
President

ERNST & YOUNG INC., solely in its capacity
as monitor in the CCAA proceedings of Nortel
and not in its personal capacity

Per: _____

Name: _____

Title: _____

DONALD SPROULE, court appointed
representative of the Nortel Former Employees

Per: _____

Name: _____

Title: _____

DAVID ARCHIBALD, court appointed
representative of the Nortel Former Employees

Per: _____

Name: _____

Title: _____

MICHAEL CAMPBELL, court appointed
representative of the Nortel Former Employees

Per: _____

Name: _____

Title: _____

SUE KENNEDY, court appointed representative
of the Represented LTD Beneficiaries

Per: _____

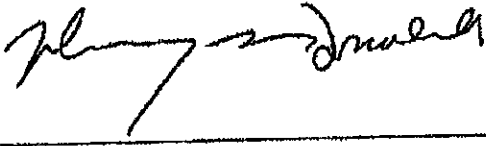
Name: _____

Title: _____

**NORTEL NETWORKS GLOBAL
CORPORATION**

Per: _____
Name:
Title:

ERNST & YOUNG INC., solely in its capacity
as monitor in the CCAA proceedings of Nortel
and not in its personal capacity

Per: 
Name:
Title:

DONALD SPROULE, court appointed
representative of the Nortel Former Employees

Per: _____
Name:
Title:

DAVID ARCHIBALD, court appointed
representative of the Nortel Former Employees

Per: _____
Name:
Title:

MICHAEL CAMPBELL, court appointed
representative of the Nortel Former Employees

Per: _____
Name:
Title:

SUE KENNEDY, court appointed representative
of the Represented LTD Beneficiaries

Per: _____
Name:
Title:

**NORTEL NETWORKS GLOBAL
CORPORATION**

Per: _____
Name: _____
Title: _____

ERNST & YOUNG INC., solely in its capacity
as monitor in the CCAA proceedings of Nortel
and not in its personal capacity

Per: _____
Name: _____
Title: _____

DONALD SPROULE, court appointed
representative of the Nortel Former Employees

Per: DEKSPROULE
Name: _____
Title: **NATIONAL CHAIR NRPC**

DAVID ARCHIBALD, court appointed
representative of the Nortel Former Employees

Per: _____
Name: _____
Title: _____

MICHAEL CAMPBELL, court appointed
representative of the Nortel Former Employees

Per: _____
Name: _____
Title: _____

SUE KENNEDY, court appointed representative
of the Represented LTD Beneficiaries

Per: _____
Name: _____
Title: _____

**NORTEL NETWORKS GLOBAL
CORPORATION**

Per: _____

Name:
Title:

ERNST & YOUNG INC., solely in its capacity
as monitor in the CCAA proceedings of Nortel
and not in its personal capacity

Per: _____

Name:
Title:

DONALD SPROULE, court appointed
representative of the Nortel Former Employees

Per: _____

Name:
Title:

DAVID ARCHIBALD, court appointed
representative of the Nortel Former Employees

Per: _____

Name:
Title:

MICHAEL CAMPBELL, court appointed
representative of the Nortel Former Employees

Per: _____

Name:
Title:

SUE KENNEDY, court appointed representative
of the Represented LTD Beneficiaries

Per: _____

Name:
Title:

ERNST & YOUNG INC., solely in its capacity
as monitor in the CCAA proceedings of Nortel
and not in its personal capacity

Per: _____

Name:

Title:

DONALD SPROULE, court appointed
representative of the Nortel Former Employees

Per: _____

Name:

Title:

DAVID ARCHIBALD, court appointed
representative of the Nortel Former Employees

Per: _____

Name:

Title:

MICHAEL CAMPBELL, court appointed
representative of the Nortel Former Employees

Per: _____

Name:

M. A. CAMPBELL, P. ENG.

Title: *VICE CHAIR, NRPC*

SUE KENNEDY, court appointed representative
of the Represented LTD Beneficiaries

Per: _____

Name:

Title:

**NORTEL NETWORKS GLOBAL
CORPORATION**

Per: _____
Name:
Title:

ERNST & YOUNG INC., solely in its capacity
as monitor in the CCAA proceedings of Nortel
and not in its personal capacity

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Name:
Title:

DONALD SPROULE, court appointed
representative of the Nortel Former Employees

Per: _____
Name:
Title:

DAVID ARCHIBALD, court appointed
representative of the Nortel Former Employees

Per: _____
Name:
Title:

MICHAEL CAMPBELL, court appointed
representative of the Nortel Former Employees

Per: _____
Name:
Title:

SUE KENNEDY, court appointed representative
of the Represented LTD Beneficiaries

Per: Sue Kennedy
Name:
Title:

KOSKIE MINSKY LLP, court appointed
counsel to the Former Employees of Nortel and
the Represented LTD Beneficiaries

Per: 

Name: *Susan Philpott*
Title: *Representative Counsel*

**NATIONAL AUTOMOBILE, AEROSPACE,
TRANSPORTATION AND GENERAL
WORKERS UNION OF CANADA (CAW-
Canada)** and its Locals 27, 1525, 1530, 1837,
1839, 1905 and/or 1915 and George Borosh et al.

Per: _____

Name: _____

Title: _____

KOSKIE MINSKY LLP, court appointed
counsel to the Former Employees of Nortel and
the Represented LTD Beneficiaries

Per: _____

Name:

Title:

**NATIONAL AUTOMOBILE, AEROSPACE,
TRANSPORTATION AND GENERAL
WORKERS UNION OF CANADA (CAW-
Canada) and its Locals 27, 1525, 1530, 1837,
1839, 1905 and/or 1975 and George Borosh et al.**

Per: _____

Name: **PETER KENNEDY**

Title: **NATIONAL SECRETARY-TREASURER**

SCHEDULE "A"**NORTEL NETWORKS CORPORATION****Direct and Indirect Subsidiaries**

Sonoma Systems
Sonoma Limited
Sonoma Systems Europe Limited
Nortel Networks Optical Components (Switzerland) GmbH
Xros, Inc.
Architel Systems Corporation
Architel Systems (U.S.) Corporation
Architel Systems (UK) Limited
NN Applications Management Solutions Inc.
CoreTek, Inc.
Alteon WebSystems Inc.
Alteon WebSystems International Inc.
Alteon WebSystems AB
Alteon WebSystems International Limited
Nortel Networks Limited
Capital Telecommunications Funding Corporation
PT Nortel Networks Indonesia
Nortel Networks Peru S.A.C.
Nortel Networks (Thailand) Ltd.
Nortel Networks Telecomunicacoes do Brazil Ltda.
Nortel Networks Malaysia Sdn Bhd.
Nortel Networks New Zealand Limited
Nortel Networks Global Corporation
Nortel Networks de Colombia S.A.
Nortel Networks Chile S.A.
Nortel Networks de Argentina S.A.
Nortel Networks del Paraguay S.A.
Nortel Networks de Venezuela C.A.

Nortel Networks del Ecuador S.A.
Nortel Networks de Mexico S.A. de C.V.
Nortel de Mexico, S. De R.L. de C.V.
Nortel Networks del Uruguay S.A.
Nortel Networks Technology Corporation
Nortel Vietnam Limited
Nortel Networks Korea Limited
Nortel Networks Singapore Pte Ltd
Nortel Networks Telecommunications Equipment (Shanghai) Co., Ltd.
Nortel Networks International Corporation
Shenyang Nortel Telecommunications Company Limited
Nortel Networks (Ireland) Limited
Northern Telecom Maroc SA
Nortel Networks Electronics Corporation
Regional Telecommunications Funding Corporation
Nortel Networks de Bolivia S.A.
1328556 Ontario Inc.
CTFC Canada Inc.
Northern Telecom Canada Limited
Nortel Networks de Panama S.A.
TSFC Canada Inc.
Nortel Networks Mauritius Ltd.
Nortel Networks (India) Private Limited
Nortel Networks S.A.
Northern Telecom France SA
Nortel Networks France SAS
Matra Communications Business Systeme GmbH
Nortel Networks (China) Limited
Nortel Networks Communications Engineering Ltd.
Nortel Networks (Asia) Limited
Guangdong - Nortel Telecommunications Equipment Co. Ltd.
LG-Nortel Co. Ltd.

6141-Sub Novera Optics Korea Inc.
Novera Optics Inc.
LN Srithai Comm Co Ltd
Nortel Communications Inc.
Nortel Networks Financial Services Limited Liability Co.
Nortel Networks Inc.
Bay Networks do Brasil Ltda.
Bay Networks Fedes de Dados para Sistemas Informaticos, da.
Clarify Limited
Clarify K.K.
Nortel Networks Cable Solutions Inc.
Nortel Networks Capital Corporation
Nortel Networks Technology K.K.
Nortel Networks Eastern Mediterranean Ltd.
Nortel Networks International Inc.
Nortel Ventures LLC
Nortel Networks Japan
Penril Datacomm Limited
Nortel Networks Southeast Asia Pte Ltd.
Nortel Networks Technology (Thailand) Ltd.
Nortel Technology Excellence Centre Private Limited
Diamondware, Ltd.
Northern Telecom International Inc.
Nortel Networks Optical Components Inc.
The Nortel Foundation
Nortel Networks India International Inc.
Nortel Networks (CALA) Inc.
Nortel Networks de Guatemala, Ltda.
Nortel Trinidad and Tobago Limited
Qtera Corporation
Nortel Networks Technology Ltd.
Nortel Networks (Shannon) Limited

Nortel Networks Europe Sales Limited
Nortel Government Solutions Incorporated
AC Technologies, Inc.
Integrated Information Technology Corporation
Nortel Networks UK Limited
Northern Telecom International Limited
Nor. Web DLP Limited
Nortel Limited
Nortel Networks (Northern Ireland) Limited
Networks Employee Benefit Trustees Company Limited
Nortel-SB d.o.o. Beograd
Nortel Networks Properties Limited
Promatory Communications Limited
X-CEL Communications Limited
Nortel Networks Optical Components Limited
Nortel Networks (Photonics) Pty. Ltd.
Northern Telecom PCN Limited
Telephone Switching International Limited
Frisken Investments Pty. Ltd.
Betts Investments Pty. Ltd.
Periphonics Limited
Nortel Networks Australia Pty Limited
Nortel Australia Communication Systems Pty. Limited
Star 21 Networks GmbH
Star 21 Networks (Schweiz) AG
Star 21 Networks Deutschland GmbH
Star 21 Facility Management Verwaltung GmbH
Star 21 Operations GmbH
Star 21 Facility Management GmbH & Co. KG
Nortel Networks International Finance & Holding BV
Uni-Nortel Communication Technologies (Hellas), S.A.
Nortel Networks (Austria) GmbH

Nortel Networks AG
Nortel Networks AS
Nortel Networks S.R.O.
Nortel Networks S.p.A.
Nortel Networks S.A.
Nortel Networks South Africa (Proprietary) Limited
Nortel Networks NV
Matra Communication Cellular Terminals GmbH
Nortel Networks Engineering Service Kft.
Nortel Networks (Bulgaria) EOOD
Nortel Networks Slovensko, s.r.o.
Nortel Networks Romania Srl
Nortel Networks O.O.O
Nortel Networks Portugal, S.A.
Nortel Communications Holdings (1997) Limited
Nortel Networks Israel (Sales and Marketing) Limited
Nortel Networks Communications (Israel) Limited
Nortel Networks Polska Sp. z.o.o.
Nortel GmbH
Nortel Networks BV
Nortel Networks Malta Limited
Nortel Ukraine Ltd.
Nortel Networks AB
Nortel Networks OY
Nortel Networks, Hispania S.A.
Nortel Networks Netas Telekomunikasyon A.S.

SCHEDULE "B" TO SETTLEMENT AGREEMENT

[ATTACHED]

ON READING the affidavit of ● sworn ●, 2010 (the “●Affidavit”) and the ● Report of Ernst & Young Inc. dated ●, 2010 (the “● Report”) in its capacity as monitor (the “Monitor”), and on hearing submissions of counsel for the Applicants and the Monitor, and on the consent of CAW, the Former Employees Representatives, the LTD Representative and Representative Counsel (as those terms are defined in the Settlement Agreement); the UCC, the Bondholder Committee (as those terms are defined in the Settlement Agreement) and the Superintendent of Financial Services of Ontario (the “Superintendent”) as the administrator of and on behalf of the Pension Benefits Guarantee Fund (the “PBGF”) not opposing, no one

appearing for ● although duly served as appears for the affidavit of service of ● date ●, 2010, filed, ●.

1. **THIS COURT ORDERS** that service of the Notice of Motion, the ● Report and the Motion Record is in accordance with the Order of this Court dated ● and is hereby validated so that this Motion is properly returnable today and further service thereof is hereby dispensed with.

2. **THIS COURT ORDERS** that capitalized terms used herein and not otherwise defined shall have the meaning given to them in the ● Affidavit or the Settlement Agreement.

Settlement Agreement

3. **THIS COURT ORDERS** that the Settlement Agreement is hereby approved in its entirety, including all schedules attached thereto, and that the Parties thereto (including by representation) are hereby bound by this Order and the Settlement Agreement and authorized and directed to comply with their obligations thereunder, including, without limitation, to make the payments provided for therein.

Pension Plans

4. **THIS COURT ORDERS AND DECLARES** that any Pension Claims made in these proceedings or in any subsequent receivership or bankruptcy proceedings or in any other proceedings or in any other forum whatsoever concerning Nortel, any Nortel Worldwide Entity or the Pension Plans shall, to the extent they are allowed pursuant to any claims adjudication procedure established in such proceedings, rank as ordinary unsecured claims on a *pari passu* basis with the claims of ordinary unsecured creditors of Nortel, such that no part of any Pension Claims shall be entitled to any preferential treatment or enjoy any priority in any manner over the claims of ordinary unsecured creditors made against Nortel, or rank as a priority claim, as a trust (whether deemed or otherwise) or a lien or charge.

5. **THIS COURT ORDERS AND DECLARES** that no person or entity, including without limitation, (i) the Representatives, (ii) the Superintendent, as administrator of and on behalf of the PBGF, (iii) NNL, as the administrator of the Pension Plans, (iv) all successor

administrators of the Pension Plans (whether appointed by the Superintendent or otherwise), and (v) the Pension HWT Claimants, all future members and beneficiaries of the Pension Plans, the trustee of the Pension Plans, the employees and former employees of Nortel and others who may have or make claims against Nortel or any Nortel Worldwide Entity with respect to employment or post employment or post retirement benefits (collectively, with the Pension HWT Claimants, the "Employee Claimants"), shall directly or indirectly assert, advance, re-assert or re-file any claim or initiate any legal proceedings or actions of any nature or kind in these proceedings or in any subsequent receivership or bankruptcy proceedings, or in any other proceedings, or in any other forum whatsoever concerning Nortel, any Nortel Worldwide Entity (to the extent such claims are provable) or the Pension Plans except as an ordinary unsecured claim ranking on a *pari passu* basis with the claims of ordinary unsecured creditors of Nortel, and shall not assert or advance any claim, directly or indirectly, that the Pension Claims, or any part thereof, ranks as a priority or preferential claim over the claims of ordinary unsecured creditors of Nortel, including, without limitation, that it is the subject of a trust (whether deemed or otherwise) or a lien or charge, or under other legal or equitable theory, and all such priority, trust, lien or charge claims are hereby forever barred, enjoined, released and extinguished as against Nortel, any Nortel Worldwide Entity, the Pension Plans, the trustee of the Pension Plans, and their respective officers, directors, employees, agents, members, legal counsel, financial advisors and each of the heirs, executors, administrators, legal representatives, successors and assigns of each of the foregoing.

6. **THIS COURT ORDERS** that the portion of proofs of claim already or hereafter filed by the Superintendent as the administrator of and on behalf of the PBGF, by Nortel, by any Employee Claimants or by any other person or entity claiming, asserting or advancing priority or preferential treatment of any kind, including, without limitation, trusts (whether deemed or otherwise) liens or charges in respect of any Pension Claims or payments by the PBGF with respect to the Pension Plans be and they hereby are disallowed, but only to the extent that they claim such priority or preferential treatment, without prejudice to the ordinary unsecured claims included in such proofs of claim. For greater certainty, such disallowance shall not otherwise affect the quantum or validity of such claims, which shall rank as ordinary unsecured creditors on a *pari passu* basis with the claims of the ordinary unsecured creditors

of Nortel, in each case, to the extent allowed against Nortel pursuant to any claims adjudication procedure established in these proceedings.

7. **THIS COURT ORDERS** that with respect to claims by the Superintendent on behalf of the PBGF, and any administrator appointed by the Superintendent, paragraphs 4, 5 and 6 shall only apply if: (i) the Pension Payments are made in accordance with the Settlement Agreement; and (ii) no bankruptcy order is made with respect to Nortel on or before September 30, 2010.

8. **THIS COURT ORDERS** that as long as NNL continues to administer the Pension Plans, there shall be no change whatsoever to the plan terms of the Pension Plans without the approval of the Court, and no change to the current asset mix or investment policies with respect to the Pension Plans other than at the request, and with the consent, of the Representative Counsel and the approval of the Court.

9. **THIS COURT ORDERS** that Nortel shall make all current service payments and special payments to the Pension Plans in the same manner as it has been doing over the course of the proceedings under the CCAA, through to March 31, 2010 in accordance with the last actuarial valuation for the Pension Plans filed with the Financial Services Commission of Ontario ("FSCO") in the aggregate amount of \$2,216,254.00 per month. Thereafter and through to September 30, 2010, Nortel shall make only current service payments to the Pension Plans (in accordance with the last actuarial valuation for the Pension Plans filed with FSCO) in the aggregate amount of \$379,837.00 per month. For greater certainty, Nortel shall not be required to make any special payment contributions to the Pension Plans after March 31, 2010. Nortel shall not be required to make any payments to the Pension Plans after September 30, 2010, except in respect of any claims in respect of the Pension Plans allowed against Nortel (which claims shall rank on a *pari passu* basis with the unsecured claims of the ordinary unsecured creditors of Nortel) pursuant to any claims adjudication procedure established in these proceedings. Neither Nortel, nor any Nortel Worldwide Entity shall have any liability regarding any contributions, fees, indemnities, charges or costs of any kind in respect of the administration of the Pension Plans that occurs after September 30, 2010. For greater certainty, nothing in this paragraph affects any obligation or liability of Nortel

regarding any contributions, fees, indemnities, charges or costs of any kind in respect of the administration of the Pension Plans that occurs before 11:59 p.m. on September 30, 2010.

Health and Welfare Trust

10. **THIS COURT ORDERS AND DECLARES** that any HWT Claims made in these proceedings or in any subsequent receivership or bankruptcy proceedings, or in any other proceedings, or in any other forum whatsoever concerning Nortel, any Nortel Worldwide Entity or the HWT shall, to the extent they are allowed against Nortel pursuant to any claims adjudication procedure established in such proceedings, rank as ordinary unsecured claims on a *pari passu* basis with the claims of ordinary unsecured creditors of Nortel, and no part of any such HWT Claims shall rank as a preferential or priority claim or shall be the subject of a constructive trust or trust of any nature or kind.

11. **THIS COURT ORDERS AND DECLARES** that no person or entity, including without limitation, the Employee Claimants and the Representatives, shall, directly or indirectly (i) advance, assert, re-assert, re-file or make any HWT Claim in these proceedings or in any subsequent receivership or bankruptcy proceedings, or in any other proceedings, or in any other forum whatsoever concerning Nortel, any Nortel Worldwide Entity (to the extent that such claims are provable) or the HWT except as an ordinary unsecured claim ranking on a *pari passu* basis with the claims of ordinary unsecured creditors of Nortel, or (ii) advance, assert, re-assert, re-file or make any claim that any HWT Claims are entitled to any priority or preferential treatment over ordinary unsecured claims, including without limitation that they rank as preferential or priority claims against Nortel or any Nortel Worldwide Entity, or are the subject of a constructive trust or trust of any nature or kind, and all such claims are hereby forever barred, enjoined, released and extinguished as against Nortel, any Nortel Worldwide Entity, the HWT and the trustee of the HWT, and their respective officers, directors, employees, agents, members, legal counsel, financial advisors and each of the heirs, executors, administrators, legal representatives, successors and assigns of each of the foregoing.

12. **THIS COURT ORDERS AND DECLARES THAT** nothing in this Order, including, without limiting the generality of the foregoing, the provisions of paragraphs 10

and 11, affects the determination on any basis whatsoever of the entitlement of any beneficiary to a distribution from the corpus of the HWT.

Release and Charge

13. **THIS COURT ORDERS** that the M&D Beneficiaries and former employees entitled to payment from the Termination Fund shall be entitled to the benefit of a charge on Nortel's Property (as defined in the Initial Order) to secure payment of the Medical and Dental Payments, Income Payments, Termination Payments and Pension Payments (the "Payments Charge"), which Payments Charge shall: (i) not exceed an aggregate amount of FIFTY-SEVEN MILLION DOLLARS (\$57,000,000.00); (ii) rank subordinate in priority to the Inter-company Charge (as defined in the Initial Order); (iii) apply in these proceedings and in any subsequent bankruptcy or receivership; (iv) be reduced in amount as the Medical and Dental Payments, Income Payments, Termination Payments and Pension Payments are paid by an amount equal to each such payment made; and (v) automatically terminate and be extinguished on the filing with this Honourable Court by the Monitor of a certificate certifying that the terms of the Settlement Agreement have been complied with by Nortel.

14. **THIS COURT ORDERS** that the creation of the Payments Charge shall not preclude this Court from creating additional charges under the Initial Order that rank in priority to or *pari passu* with the Payments Charge.

15. **THIS COURT ORDERS AND DECLARES** that the Releasees, the CAW, the Representatives, the Superintendent in his capacity as administrator of and on behalf of the PBGF (if and only if paragraphs 4, 5 and 6 apply as provided in paragraph 7), and their legal counsel and financial advisors and each of the heirs, executors, administrators, legal representatives, successors and assigns of each of the foregoing, be and they are hereby released, discharged and remised from any and all direct and indirect claims (contingent, liquidated or unliquidated, proven or unproven, known or unknown, in the nature of damages or otherwise, whether or not asserted and whether arising by contract, agreement (whether written or oral), under statute, civil law, common law, or in equity, or otherwise in any jurisdiction) related to (i) the Pension Plans, including without limitation, the administration of the Pension Plans, any obligation to assert or advance in these proceedings, or in any

subsequent receivership or bankruptcy proceedings or in any other proceedings or in any other forum whatsoever concerning Nortel, any Nortel Worldwide Entity or the Pension Plans, any priority claim, as a trust (whether deemed or otherwise) or a lien or charge, the funding of the Pension Plans (including any obligation to contribute to the Pension Plans, except as required by paragraph 9 of this Order) and the investment of the Pension Plan assets, and (ii) the HWT, including without limitation, the administration of the HWT, the funding of the HWT, any obligation to contribute to the HWT and the investment of the HWT assets, provided that nothing herein shall release a director of Nortel from any matter referred to in subsection 5.1(2) of the CCAA or with respect to fraud on the part of any Releasee, with respect to that Releasee only.

16. **THIS COURT ORDERS AND DECLARES** that the Nortel Releasees be and they are hereby released, discharged and remised from any and all direct and indirect claims (contingent, liquidated or unliquidated, proven or unproven, known or unknown, in the nature of damages or otherwise, whether or not asserted and whether arising by contract, agreement (whether written or oral), under statute, civil law, common law, or in equity, or otherwise in any jurisdiction) that the Pension Claims and the HWT Claims, or any part thereof, rank as a preferential or priority claim over the claims of ordinary unsecured creditors of Nortel, as a trust (whether deemed or otherwise) or a lien or charge, or under any other legal or equitable theory. For greater certainty, notwithstanding the foregoing, nothing in this Order shall release or discharge the Nortel Releasees from any Pension Claims and HWT Claims to the extent such claims are allowed as ordinary unsecured claims (which claims shall rank as on a *pari passu* basis with the unsecured claims of the ordinary unsecured creditors of Nortel) against the Nortel Releasees pursuant to any claims adjudication procedure established in these proceedings.

17. **THIS COURT ORDERS** that the Employee Claimants shall not assert, advance or make any claims of any nature whatsoever against any person or entity whatsoever that could reasonably be expected to result in a claim over (including, without limitation, a claim for contribution or indemnity) being made against any of the Releasees or Nortel Releasees with respect to the subject matter of the release provisions hereof.

CCAA Plan or Subsequent Bankruptcy

18. **THIS COURT ORDERS AND DECLARES** that under no circumstances shall any CCAA Plan of Arrangement in the Nortel proceedings (the "Plan") be proposed or approved by the Court if: (i) the Plan provides for separate classification of any Employee Claimants from ordinary unsecured creditors of Nortel, including, without limitation, bondholders and Nortel Networks Inc.; or (ii) the Employee Claimants and the other ordinary unsecured creditors do not receive the same *pari passu* treatment of their allowed claims against Nortel pursuant to the Plan.

19. **THIS COURT ORDERS** that notwithstanding anything else in this Order, including for greater certainty paragraph 16 hereof, if there is an amendment to any provision of the *Bankruptcy and Insolvency Act* that changes the current, relative priorities of the claims against Nortel, no party is precluded by this Order from arguing the applicability or non-applicability of any such amendment in relation to any such claim.

For Discussion Purposes Only⁹
DRAFT: 1 - February 8, 2010 at 2:53 PM

SCHEDULE "A"

15805980.12

SCHEDULE "C" TO SETTLEMENT AGREEMENT

[ATTACHED]

NORTEL



February 8, 2010

Pension Benefits Guarantee Fund (Ontario)
c/o Financial Services Commission of Ontario
4th Floor
5160 Yonge Street
Toronto, ON
M2N 6L9

Attention: K. David Gordon, Deputy Superintendent, Pensions

Dear Sirs:

**Re: Court File No. 09-CL-7950
In the Matter of the Companies' Creditors Arrangement Act and Nortel
Networks Corporation et al (Nortel")**

This letter sets out, among other things, the understanding among Nortel, the Monitor and the Superintendent of Financial Services in his capacity as Administrator of the Pension Benefits Guarantee Fund concerning the administration of Nortel's registered pension plans (the "Pension Plans") and the transition of the Pension Plans to a new administrator, in order to provide for an orderly, cost effective transition that will be in the best interests of the members of the Pension Plans.

Defined terms used herein shall have the meaning given to them in the agreement made as of the 8th day of February, 2010 a copy of which is attached hereto as Schedule "A" (the "Settlement Agreement"):

1. **Conditional Understanding:** It is acknowledged that the terms of this letter are conditional on (a) the Settlement Agreement having been fully executed and delivered, and (b) the order of the Court approving the Settlement Agreement having been issued and entered substantially in the form of the Order attached as Schedule "B".
2. **Pension Plan Administration:** Nortel will continue to administer the Pension Plans until September 30, 2010 at 11:59 p.m. Neither Nortel nor the Monitor will take any steps to initiate a wind up, in whole or in part, of the Pension Plans with an effective date prior to October 1, 2010. So long as Nortel is the administrator of the Pension Plans there will be no change to the current asset mix, investment policies or the plan terms with respect to the Pension Plans without the consent of the Representative Counsel and the approval of the Court.
3. **Pension Plan Transition:** (a) Nortel will ensure that all books, records, data and other information relating to the Pension Plans or beneficial to the



administration or winding-up of the Pension Plans are consolidated in Toronto, Ontario, Canada by no later than March 31, 2010; and (b) the Monitor and Nortel will take all reasonable steps, at the sole cost and expense of Nortel, to complete the orderly transfer of the administration of the Pension Plans to a new administrator appointed by the Superintendent effective October 1, 2010 (the "New Administrator").

4. Settlement Agreement and Settlement Approval Order: The Superintendent will not oppose the granting of an Order substantially in the form attached hereto as Schedule "B".
5. Employee Incentive and Director Charge Order: The Superintendent will not oppose the granting of a court order approving (a) any employee incentive program, including any charge therefor, that is determined by the Monitor to be reasonable and necessary for the continued operation of Nortel, or (b) the creation of a trust for persons who accept the directorship of Nortel worldwide subsidiaries in order to facilitate the restructuring, provided that: (i) such trust is approved and recommended by the Monitor; (ii) no part of the corpus of the trust may be used to pay bonuses or any other compensation to the directors; and (iii) any corpus of the trust remaining on the termination of the trust reverts to Nortel.
6. Directors: The Superintendent confirms that as of January 15, 2010, he is not aware of any claims against directors, officers or the Monitor, other than such claims as may arise as a result of the transfer of pension information and other records outside of Canada.

Please sign and return the copy of this letter attached.

Yours very truly,

attachments



Nortel Networks Corporation

Per:

Name ANNA VENTRESCA
Title General Counsel - Corporate and Corporate Secretary

Nortel Networks Limited

Per:

Name ANNA VENTRESCA
Title General Counsel - Corporate and Corporate Secretary

Nortel Networks Global Corporation

Per:

Name Anna Ventresca
Title Secretary

Nortel Networks International Corporation

Per:

Name Anna Ventresca
Title Secretary

Nortel Networks Technology Corporation

Per:

Name Anna Ventresca
Title Secretary

Nortel Networks Corporation

Per:

Name JOHN DOOLITTLE
Title Sr. Vice President, Finance and Corporate Services

Nortel Networks Limited

Per:

Name JOHN DOOLITTLE
Title Sr. Vice President, Finance and Corporate Services

Nortel Networks Global Corporation

Per:

Name JOHN DOOLITTLE
Title President

Nortel Networks International Corporation

Per:

Name John Doolittle
Title President



**Ernst & Young Inc., solely in its capacity
as Monitor in the CCAA proceedings of
Nortel and not in its personal capacity**

Per:

Name
Title

**Superintendent of Financial Services of
Ontario as administrator of the Pension
Benefits Guarantee Fund without personal
liability**

Per:

Name
Title



Ernst & Young Inc., solely in its capacity
as Monitor in the CCAA proceedings of
Nortel and not in its personal capacity

Per:

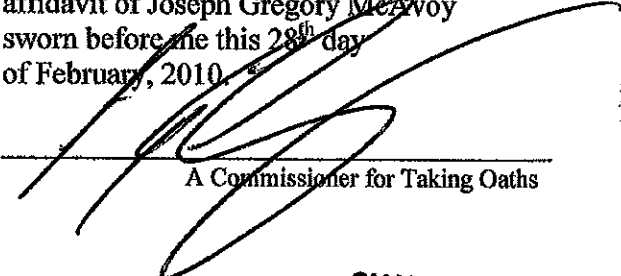
Name
Title

Superintendent of Financial Services of
Ontario as administrator of the Pension
Benefits Guarantee Fund without personal
liability

Per:

Name *R. David Gordon*
Title *Deputy Superintendent, Pensions*

This is Exhibit C referred to in the
affidavit of Joseph Gregory McAvoy
sworn before me this 28th day
of February, 2010.



A Commissioner for Taking Oaths

SHAUN FLANNIGAN
Barrister and Solicitor

NOTICE LETTER
CONCERNING NORTEL NETWORKS CORPORATION, NORTEL NETWORKS LIMITED,
NORTEL NETWORKS GLOBAL CORPORATION, NORTEL NETWORKS
INTERNATIONAL CORPORATION AND NORTEL NETWORKS TECHNOLOGY
CORPORATION
(hereinafter collectively referred to as "Nortel")

RE: NOTICE OF SETTLEMENT OF MATTERS INVOLVING NORTEL, ITS FORMER EMPLOYEES, EMPLOYEES ON LONG TERM DISABILITY ("LTD BENEFICIARIES"), ITS PENSIONERS AND ITS CONTINUING EMPLOYEES AND NOTICE OF BAR DATE AND RELEASE RELATING TO THE PROPOSED SETTLEMENT AND ORDER IMPLEMENTING THE SETTLEMENT

The Court appointed representatives of former employees of Nortel, including pensioners, the Court appointed representative of the LTD Beneficiaries, the Court appointed representative counsel to such parties ("Representative Counsel"), CAW, Nortel and the Monitor have entered into a settlement agreement in respect of which a Court order will be sought involving, among other things:

- (i) payment by Nortel of medical, dental and life insurance benefits to pensioners and LTD Beneficiaries is to continue unchanged until December 31, 2010;
- (ii) 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;
- (iii) LTD Beneficiaries will maintain status as active employees until December 31, 2010, with termination of employment to occur on that date;
- (iv) payment to a maximum of \$3,000 to eligible terminated employees who, among other things, were terminated on or prior to June 30, 2010, as an advance against their claims under the *Companies' Creditors Arrangement Act*, for a total maximum pool of \$4.2 million;
- (v) the termination of special payment contributions by Nortel to its pension plans at the end of March, 2010, and the continued administration and current service funding by Nortel of its pension plans until September 30, 2010, after which the administration will be transferred in accordance with the Pension Benefits Act and no creditor preference will apply to the pension deficit;
- (vi) a diminishing charge on Nortel assets initially in the amount of \$57 million to secure the payments contemplated by (i), (ii), (iv) and (v) above;
- (vii) to the extent that claims in respect of, among other things, any pension plan deficit, by, among others, a pension plan administrator, or any other claims of the continuing and former employees of Nortel, including pensioners and LTD Beneficiaries, are allowed pursuant to any claims adjudication process established with respect to Nortel, such claims will rank as ordinary unsecured claims on a *pari passu* (equal priority) basis with the claims of all ordinary unsecured creditors of Nortel;
- (viii) in the event of a bankruptcy of Nortel, if there is an amendment to any provision of the *Bankruptcy and Insolvency Act* that changes the current, relative priorities of the claims against Nortel, no party is precluded by the settlement agreement from arguing the applicability or non-applicability of any such amendment in relation to any such claim;

(ix) the release of certain potential claims by all persons including all pension plan beneficiaries and health and welfare trust beneficiaries as against certain specified persons and entities including Nortel's directors, officers and pension plan committee members and the Monitor, relating to the administration of Nortel's pension plans and health and welfare trust, except for potential claims for fraud and certain potential claims against directors for, among others, misrepresentation (the release does not bar unsecured claims employees and former employees may have against Nortel itself, including claims related to pensions plans, health and welfare benefits or claims to the funds held in the Health and Welfare Trust); and

(x) the withdrawal, on a with prejudice basis, of 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.

(collectively, the "Settlement").

Questions can be directed to the Monitor by telephone (1-416-943-4439 or 1-866-942-7177) or by fax (1-416-943-2808). Representative Counsel can be contacted at 1-866-777-6344 or www.kmlaw.ca/case-central or nortel@kmlaw.ca. You may also contact the Court appointed representatives directly through www.nortelpensioners.ca or CNELTD-owner@yahoogroups.com. If you are a member or former member of the CAW with respect to Nortel represented by counsel to the CAW, you may contact Barry Wadsworth at 1-800-268-5763 ext. 3776. Representative Counsel will hold a webinar, with an audio-only option for individuals without internet access, on February 23, 2010 to explain the Settlement and its impact.

The Settlement, including the Settlement Approval Order sought as part of the Settlement, contains terms and provisions that may compromise, limit or release certain of your rights. Please consult the Settlement Document package for more details at the Monitor's website "www.ey.com/ca/nortel".

This notice is being published pursuant to an Order of the Superior Court of Justice of Ontario (the "Court") made February 9, 2010 (the "Notice Procedure Order"). Pursuant to the Notice Procedure Order, this Notice Letter has been approved by the Court. A copy of this Notice Letter will be sent to former employees, pensioners, LTD Beneficiaries and continuing employees of Nortel and certain regulatory authorities (the "Settlement Notice Parties") on or before February 16, 2010, if those parties are known to Nortel, and if Nortel has a current address. Settlement Notice Parties may obtain a Settlement document package, including the form of Settlement Approval Order, further details of the Settlement and a form of notice of appearance (the "Notice of Appearance"), from the website of Ernst & Young Inc., Court-appointed monitor of Nortel, at "www.ey.com/ca/nortel".

A motion for approval and implementing of the Settlement including for the barring and release of certain claims (the "Settlement Approval Motion") has been scheduled with the Court in Toronto for March 3, 2010. If you wish to attend and be heard at the Settlement Approval Motion on March 3, 2010 to oppose such motion, a Notice of Appearance must be submitted by courier, registered mail, email or fax to the Monitor and the Monitor's counsel, Goodmans LLP, at the following addresses:

ERNST & YOUNG INC.
Court-appointed Monitor of Nortel Networks Corporation & others
222 Bay Street, Suite 1600
Toronto, Ontario
Canada M5K 1J7

Attention: Nortel Settlement
Telephone: 1-416-943-4439 or 1-866-942-7177
E-mail: nortel.monitor@ca.ey.com
Fax: 1-416-943-2808

With a copy to:

GOODMANS LLP
Lawyers for the Court-appointed Monitor of Nortel Networks Corporation & others
The Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, Ontario
Canada M5B 2S7

Attention: Christopher Armstrong
Email: carmstrong@goodmans.ca
Fax: 1-416-979-1234

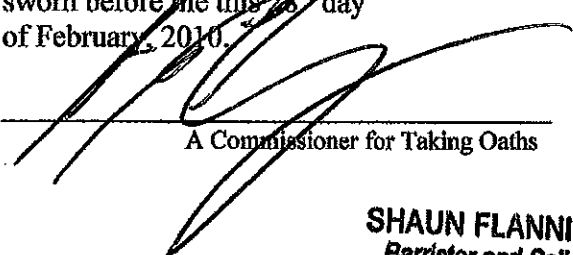
Notices of Appearance must be received by the Monitor and Goodmans LLP by 10:30 a.m. (prevailing Eastern Time) on March 1, 2010 (the "Notice of Appearance Bar Date"). It is your responsibility to ensure that the Monitor and Goodmans LLP receive your Notice of Appearance by the Notice of Appearance Bar Date if you wish to appear and be heard to oppose the Settlement Approval Motion. If you file a Notice of Appearance by the Notice of Appearance Bar Date you must be represented in person or through legal counsel as an independent individual party at your own expense with respect to the Settlement Approval Motion and any other proceedings regarding the Settlement and the Settlement Agreement in which you wish to participate.

PLEASE NOTE: Several of the Nortel affiliates are subject to creditor protection proceedings in other jurisdictions, including in the United States. None of the Settlement, the Settlement Approval Motion nor these procedures apply to former employees, employees on long-term disability, pensioners and continuing employees of the Nortel affiliates.

SETTLEMENT NOTICE PARTIES WILL BE BOUND BY ALL TERMS OF THE SETTLEMENT, THE SETTLEMENT AGREEMENT AND THE SETTLEMENT APPROVAL ORDER AND WILL BE BARRED AND ENJOINED FROM OBJECTING TO, DISPUTING IN ANY MANNER WHATSOEVER, APPEALING OR MOVING TO SET-ASIDE OR VARY THE SETTLEMENT, THE SETTLEMENT AGREEMENT, OR THE SETTLEMENT APPROVAL ORDER IF A NOTICE OF APPEARANCE IS NOT RECEIVED BY THE MONITOR AND GOODMANS LLP ON OR BEFORE THE NOTICE OF APPEARANCE BAR DATE AND SUCH SETTLEMENT NOTICE PARTY DOES NOT ATTEND IN PERSON OR BY LEGAL COUNSEL AT THE SETTLEMENT APPROVAL MOTION TO BE HEARD ON MARCH 3, 2010 AT THE COURT HOUSE, 8TH FLOOR, 393 UNIVERSITY AVENUE, TORONTO, ONTARIO.

DATED at Toronto this 10th day of February, 2010.

This is Exhibit 5 referred to in the
affidavit of Joseph Gregory McAvoy
sworn before me this 28th day
of February, 2010.



A Commissioner for Taking Oaths

SHAUN FLANNIGAN
Barrister and Solicitor

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF
COMPROMISE OR ARRANGEMENT OF
NORTEL NETWORKS CORPORATION, NORTEL NETWORKS LIMITED,
NORTEL NETWORKS GLOBAL CORPORATION, NORTEL NETWORKS
INTERNATIONAL CORPORATION AND NORTEL NETWORKS
TECHNOLOGY CORPORATION**

**APPLICATION UNDER THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED**

NOTICE OF APPEARANCE

TO: ERNST & YOUNG INC.
Court-appointed Monitor of Nortel Networks
Corporation & others
222 Bay Street, Suite 1600
Toronto, Ontario
Canada M5K 1J7

WITH A COPY TO: GOODMANS LLP
Lawyers for the Court-appointed Monitor of Nortel
Networks Corporation & others
Bay Adelaide Centre, 333 Bay Street, Suite 3400
Toronto, Ontario
Canada M5H 2S7

Attention: Nortel Settlement
Phone: 1-416-943-4439 or 1-866-942-7177
E-mail: nortel.monitor@ca.ey.com
Fax: 1-416-943-2808

Attention: Christopher Armstrong
Email: carmstrong@goodmans.ca
Fax: 1-416-979-1234

I, _____ (please check the box that applies):
(insert name)

- ☐ am a current employee of the Canadian Nortel companies;
- ☐ am a current employee of the Canadian Nortel companies and am currently in receipt of or have applied for disability income benefits;
- ☐ am a former employee of the Canadian Nortel companies;
- ☐ am a former employee of the Canadian Nortel companies in receipt of a Nortel pension;
- ☐ am a surviving spouse in receipt of a Nortel pension or a person claiming an interest under or on behalf of a former employee of the Canadian Nortel companies in receipt of a Nortel pension;
- ☐ am a provincial pension plan regulator _____
(state name of provincial pension regulator and your title)

Under the Order of Mr. Justice Morawetz dated February 9, 2010, affected notice parties who wish to appear and be heard to oppose a motion currently scheduled for March 3, 2010 (the "Settlement Approval Motion") to approve a settlement described in the Notice Letter sent to such parties (the "Settlement") may do so by filing this Notice of Appearance with the Monitor and Goodmans LLP by way of fax/email/regular mail/courier provided that such Notice of Appearance is received by the Monitor and Goodmans LLP on or before 10:30 a.m. (prevailing Eastern Time) on March 1, 2010.

I hereby notify the Monitor that: (a) I intend to appear at the Settlement Approval Motion to oppose the Settlement Approval Motion; and (b) I will appear in person or through my own independent counsel at my own expense at the Settlement Approval Motion and to the extent I wish to appear in any other proceedings relating to the Settlement. I oppose the Settlement for the following reasons (briefly describe your reasons for opposing in the space provided below):

Failure to file a Notice of Appearance with the Monitor and Goodmans LLP on or before 10:30 a.m. (prevailing Eastern Time) on March 1, 2010 will result in you being bound by all terms of the Settlement, the Settlement Agreement and the Settlement Approval Order and in you being forever barred and enjoined from objecting to, opposing, disputing in any manner whatsoever, appealing or moving to set aside or vary the Settlement, the Settlement Agreement and the Settlement Approval Order.

Date

Signature

My contact information for service is as follows:

My solicitor's address for service is as follows:

(please insert an email address for service or a street address if you do not have an email address)

(please complete the above information for the solicitor, if any, you have retained to represent you at the Settlement Approval Motion)

My contact phone number is as follows:

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF NORTEL NETWORKS CORPORATION,
NORTEL NETWORKS LIMITED, NORTEL NETWORKS GLOBAL CORPORATION, NORTEL NETWORKS INTERNATIONAL
CORPORATION AND NORTEL NETWORKS TECHNOLOGY CORPORATION

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**PROCEEDING COMMENCED AT
TORONTO**

AFFIDAVIT OF JOSEPH GREGORY MCAVOY
(Sworn February 28, 2010)

ROCHON GENOVA LLP

Barristers • Avocats
Suite 900
121 Richmond Street West
Toronto, Ontario
M5H 2K1

Joel P. Rochon

Law Society No.: 28222Q
Tel: 416-363-1867
Fax: 416-363-0263

Lawyers for the Opposing LTD Employees