



NORTEL NETWORKS SA WORKERS' COUNCIL
Open Letter

July 9th 2009

***Open Letter from the Workers' Council of Nortel Networks S.A. (France),
representing the employees, to the Ernst & Young firm.***

Sirs,

You have been advisors to the group Nortel since 2008 (and before).

As such, you have advised the group in the preparation of a comprehensive restructuring plan, involving the opening of a number of administration procedures in Canada, the United States and Europe on January 14th 2009. In particular, an Administration procedure based on British law has been entered into for the Nortel companies in France (namely Nortel Networks SA and its subsidiary Nortel Networks France), without any prior consulting of their Workers' Councils, and thus in violation of French law. Not only have you been collecting substantial fees as a financial advisor to Nortel over the past few years; your firm also managed to be appointed as Administrator for each of the European companies in Administration, as well as "Monitor" of the Companies' Creditor Arrangement Act (CCAA) procedure in Canada.

This whole process has clearly been rolled out to the detriment of Nortel France (NNSA) and its employees, and for this we are holding you accountable. As a result of your management, some 500 French payroll employees are to be dismissed under unacceptable conditions; furthermore, the low-level indemnification now foreseen for them will be drawn from a State fund – in other terms, at the French taxpayers' expense.

In an attempt to shun your responsibilities, you petitioned a French judge for the opening of a liquidation procedure in France, after transferring some 15 million Euros belonging to our company to a bank account in England; you are keeping this amount in escrow, not least to reward yourselves with more than sizable fees, totaling millions of Euros. Meanwhile, the French court-appointed liquidator is announcing today that the company lacks what cash would be needed to finance a decent collective layoff plan for the 500 employees now facing a prompt dismissal; this led us to go on a spontaneous strike.

Several instances of your disastrous management are to be highlighted:

1. Since 2004, the Nortel Group established an intercompany funding system (known as "Residual Profit Sharing" or "RPS"), which made it possible for the Group to collect some 300 million Euros from Nortel France, until the end of 2008. Of concern is the fact that the Nortel Group made a final levy totaling 15 million Euros for the years 2006-2007 on December 22nd 2008, days before most Group entities were put in Administration; at the time you were already advising the Group. This levy was made mainly for the benefit of Nortel Canada (an entity for which you have been appointed Monitors), and has helped financing a bonus totaling about US\$ 45 million, of which 25% have already been distributed to the leaders of the Group in Canada and the United States in early 2009.
2. While the group is in Administration, we notice that the siphoning off continues, under your leadership and for the benefit of Nortel Canada and Nortel UK. In particular, you gave your unconditional support to the Interim Funding Settlement Agreement (IFSA) which now supersedes the RPS. Within this new framework, you have "negotiated" with yourselves (drawing advantage from your double mandate as Administrator for Nortel France and Nortel UK) an arrangement which



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you described as "fair": per its terms, Nortel France (in liquidation) must pay 4.8 million dollars to Nortel UK, an entity which is currently collecting nearly 100 million dollars from various Group companies. The conflict of interests is blatant. To justify this, you have argued before a U.S. court that Nortel UK needed to be compensated for its costs in Research & Development (R&D). Yet, obviously, from an R&D funding perspective Nortel France is in the same situation as Nortel UK, and should be expecting comparable funding, rather than having to pay the \$ 4.8 million. We'd like to remind you that the France-based research center is sizable indeed, and that the investments financed locally for R&D purposes have been of significant benefit to the whole Group in its European, American, Asian and African markets; so significant, in fact, that the Group chose to assign the various patents which arose from our research, together with their huge market value, to its Canadian headquarter entity, free of charge (!).

3. Although you are fully responsible for the current situation, you chose to evade your management responsibilities in France by opening secondary proceedings (known as French "liquidation") for the main French entity, which will therefore cease to receive any financial support from the Group, unlike Nortel UK and Nortel Canada; meanwhile, you are keeping an abusive hold on our company's funds, at a time when the French court-appointed liquidator would most urgently need them to finance the continuing of its business activity and the workers' indemnification made necessary by the impending collective dismissal.

Today, for the well-being of the dismissed employees and their families, and in the midst of an unprecedented global crisis, we demand financial compensation and outplacement measures commensurate with our past contribution, through the quality of our work, to the stature of the Nortel Group.

We have been on strike since Tuesday, July 7th 2009, for an undetermined period – that is, until our demands are met.

Negotiations were opened on July 8th 2009 with the court-appointed Administrator, Mr. Franck Michel, who has pledged to bring such claims to the Ernst & Young administrator and to the Nortel headquarters in Canada.

IT IS NOW INCUMBENT UPON YOU TO FIND A SOLUTION TO THE UNACCEPTABLE SITUATION WHICH YOU HAVE CREATED, MUCH TO THE DETRIMENT OF NORTEL'S EMPLOYEES IN FRANCE.