

**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**

**SUPPLEMENT TO THIRTY-NINTH REPORT OF THE MONITOR  
DATED FEBRUARY 23, 2010**

**PURPOSE**

1. This supplement to the Thirty-Ninth Report of the Monitor ("**Supplemental Thirty-Ninth Report**") is provided in reference to the Monitor's Thirty-Ninth Report dated February 18, 2010 (the "**Thirty-Ninth Report**"). The purpose of this Supplemental Thirty-Ninth Report is to provide:
  - (a) copies of additional information the Monitor received from Mercer following issuance of the Thirty-Ninth Report regarding Canadian non-pension post-employment benefits and post-retirement benefits (collectively, the "**Non-Pension Benefits**");
  - (b) clarification on the summary table included in the Thirty-Ninth Report at paragraph 42; and

- (c) an update on inquiries the Monitor, its counsel and Settlement Representative Counsel have received relating to the Settlement from Affected Settlement Notice Parties.

#### **TERMS OF REFERENCE**

- 2. In preparing this Supplemental Thirty-Ninth Report, EYI has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company and discussions with management of Nortel. EYI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and accordingly, expresses no opinion or other form of assurance on the information contained in this Supplemental Thirty-Ninth Report. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
- 3. Capitalized terms not defined in this Supplemental Thirty-Ninth Report are as defined in the Thirty-Ninth Report.

#### **GENERAL BACKGROUND**

- 4. The Thirty-Ninth Report was filed in support of the Applicants' motion for approval of the Settlement Approval Order and contained information on or relevant to the Settlement, including:
  - (a) information concerning the Benefits and the HWT, to the extent relevant, and, in this regard, attached the following documents as appendices to the Thirty-Ninth Report:

- (i) Appendix "F" - The Valuation of Post-Employment Benefit Liabilities for Accounting Purposes as at December 31, 2008, prepared by Mercer; and
  - (ii) Appendix "G" - The Report on Non-Pension Post-Retirement Benefit Cost and Disclosure for the Fiscal Year ending December 31, 2008, prepared by Mercer; and
- (b) a summary of estimated payments the Applicants will make pursuant to the Settlement Agreement, in a table format.

#### **INFORMATION ON THE HWT**

5. Following the issuance of the Thirty-Ninth Report, the Monitor received information on the Non-Pension Benefits as at December 31, 2009. The information was provided to the Monitor from Mercer, after certification by the Company. The information on Non-Pension Benefits (as prepared by Mercer) available at the time of the issuance of the Thirty-Ninth Report was as at December 31, 2008 and was attached as Appendices "F" and "G" to the Thirty-Ninth Report.
6. The Monitor has prepared this Supplemental Thirty-Ninth Report in order to provide this Honourable Court, the Service List and any other interested parties (in the case of other interested parties, by way of posting on the Monitor's website at [www.ey.com/ca/nortel](http://www.ey.com/ca/nortel)) with the most recent information prepared by Mercer on the Non-Pension Benefits. Accordingly, attached as Appendices hereto are the following documents prepared by Mercer:

- (a) Appendix “A” - Canadian Post Employment Benefits Accounting In Accordance with CICA 3461 and US Accounting Standards for Fiscal 2009 (the “**Mercer Post Employment Benefits Accounting**”); and
  - (b) Appendix “B” - Report on Non-Pension Post Retirement Benefit Cost and Disclosure for the Fiscal Year Ending December 31, 2009.
7. The Mercer Post-Employment Benefits Accounting contains a note that it replaces the February 2, 2010 Letter. In a letter dated February 23, 2010 (a copy of which is attached hereto as Appendix “C”) (the “**Mercer February 23 Letter**”), Mercer advised the Monitor that the only difference between the February 2, 2010 Letter and the Mercer Post-Employment Benefits Accounting is that the latter includes, in the Mercer opinion letter thereto, a reference to Nortel advising Mercer that Nortel intends to account for the cessation of payment of non-pension benefits after December 31, 2010 as a subsequent event that would be accounted for in fiscal 2010 or later.

#### **SUMMARY TABLE**

8. This Supplemental Thirty-Ninth Report does not change the amount of any of the estimated payments the Applicants will make pursuant to the Settlement Agreement and as set out in the table at paragraph 42 of the Thirty-Ninth Report.
9. For purposes of clarification, the table at paragraph 42 of the Thirty-Ninth Report that summarizes certain benefit payments refers to an approximate amount for Pensioner M&D that is higher than the range indicated at paragraph 57 of the Thirty-Ninth Report. This is because the value in the table includes the estimated cost of Pensioner M&D

which would be paid in 2011, but referable to medical and dental claims made in respect of 2010, in the amount of approximately \$3.5 million. Similarly, the table at paragraph 42 of the Thirty-Ninth Report refers to an approximate amount for LTD M&D and LTD Life that is higher than the range indicated at paragraph 61 of the Thirty-Ninth Report, because it includes those benefits which would be paid in 2011, but referable to claims made in respect of 2010, in the aggregate approximate amount of \$400,000.

#### **UPDATE ON INQUIRIES RECEIVED**

10. As early as February 9, 2010, following the issuance of the press releases referred to in paragraph 37 of the Thirty-Ninth Report, the Monitor started receiving inquiries relating to the Settlement on its toll-free help line. The number of inquiries the Monitor has received has increased following issuance of the Notice Letter and publication of the Notice Letter in a number of newspapers in accordance with the Notice Procedure Order. The majority of inquiries received on the Monitor's toll-free help line are from pensioners inquiring about the impact of the Settlement on the Pension Plans.
11. During the week ended February 13, 2010 (following the issuance of the press releases on February 8, 2010), the Monitor received approximately 15 inquiries on its toll free help line.
12. During the week ended February 20, 2010 (following the issuance of the Notice Letter and the publication of the Notice Letter in a number of newspapers), the Monitor received approximately 260 inquiries on its toll free help line.

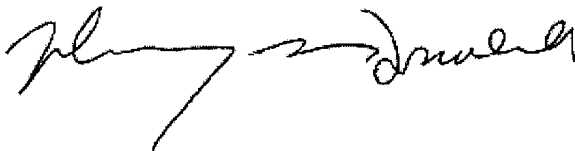
13. In addition to inquiries received on the Monitor's toll free help line, the Monitor and its counsel, Goodmans LLP, are also receiving inquiries by email and fax (although the level of inquiries through these mediums is much lower). To date, the Monitor and Goodmans LLP have received approximately 15 inquiries by email or fax.
14. The Monitor has been advised by Settlement Representative Counsel that it has received approximately 275 inquiries on its toll free help line and by email. Settlement Representative Counsel has advised that the majority of these inquiries have been received on its toll free help line.
15. In response to certain inquiries received, the Settlement Agreement has been translated into French. The French translation of the Settlement Agreement will be available on the Monitor's website at "[www.ey.com/ca/Nortel](http://www.ey.com/ca/Nortel)" today.

All of which is respectfully submitted this 23rd day of February, 2010.

**ERNST & YOUNG INC.**

In its capacity as Monitor of the Applicants

Per:

A handwritten signature in black ink, appearing to read 'Murray A. McDonald', written over a horizontal line.

Murray A. McDonald  
President

**APPENDIX A - CANADIAN POST EMPLOYMENT BENEFITS ACCOUNTING IN  
ACCORDANCE WITH CICA 3461 AND US ACCOUNTING STANDARDS FOR  
FISCAL 2009**

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**Ellen Whelan, FSA, FCIA**  
Principal

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23 February 2010 (Replaces 2 February 2010 letter)

Elizabeth Smith  
Global Pension and Other Post-Employment  
Benefit Accounting and Control  
Nortel Networks Inc.  
220 Athens Way, Suite 300  
Nashville, TN 37228

## **Private & Confidential**

**Subject:** Canadian Post Employment Benefits Accounting In Accordance with CICA 3461 and US Accounting Standards for Fiscal 2009

Dear Elizabeth:

Mercer was requested by Nortel Networks Corporation ("Nortel") to calculate the Post Employment Obligations as at December 31, 2008 and December 31, 2009. In accordance with our mandate, the purpose of these valuations is to enable Nortel to account for the plan cost for fiscal 2009 and prepare year end disclosure information as at December 31, 2009 in accordance with Canadian Institute of Chartered Accountants Handbook Section 3461 ("CICA 3461") and US accounting standards as issued by the Financial Accounting Standards Board ("US accounting standards").

The results provided in this report and have been determined using methods and assumptions appropriate for financial reporting purposes and may not be appropriate for other purposes such as funding the benefits.

In February 2010, we have been notified by Nortel that they will stop paying non-pension benefits after December 31, 2010. We have also been advised by Nortel that it intends to account for this event as a subsequent event. Any required curtailment and settlement in this respect would be accounted for in fiscal 2010 or later.



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23 February 2010 (Replaces 2 February 2010 letter)

Elizabeth Smith

Nortel Networks

The following post employment benefit plans for Canadian members are included in the valuation results presented in this report:

- Short Term Disability (STD) Benefits (including continuation of Life insurance, Medical and Dental)
- Long Term Disability (LTD) Income Benefits
- Continuation of Life Insurance, Medical and Dental Benefits during LTD
- Survivor Income Benefits (SIB) – Non-Union
- Survivor Transition Benefits (STB) – Union
- Continuation of DC pension contributions while disabled

Note that our report does not include other post employment benefits that Nortel may provide that are not listed above. In particular, this report does not include obligations for the continuation of employee paid optional life insurance plan to disabled employees, as we understand that Nortel is not responsible to pay for such coverage. The assets currently held in a H&W Trust have not been used in the determination of the accounting obligations or accounting expense provided in this report as we understand that the funds do not meet the definition of an asset for accounting purposes for these plans.

## Valuation Results

The following summarizes the estimated benefit obligations as at December 31, 2009 and December 31, 2008 as well as the incremental expense that should be booked for fiscal 2009:

All amounts in \$000s (Cdn.)

Post Employment Benefits (PEB)	31.12.09	31.12.08	Incremental Expense (Difference)
STD including continuation of Life, Medical and Dental	\$200	\$200	\$0
LTD	105,600	104,600	1,000
Basic Life, Medical and Dental benefits during LTD	26,000	30,000	(4,000)
Survivor Benefits (SIB/STB)	19,800	23,000	(3,200)
DC Contributions during LTD	900	1,000	(100)
<b>Total</b>	<b>\$152,500</b>	<b>\$158,800</b>	<b>(\$6,300)</b>

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23 February 2010 (Replaces 2 February 2010 letter)

Elizabeth Smith

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Under US accounting standards, the annual benefit cost (i.e. expense) is determined as the sum of the change in the unfunded liability during the year plus the actual cash payments for the post employment benefits made in the year. We understand that cash payments have been expensed when made and therefore Nortel need only record the incremental expense at this time of an income of \$6.3M. While CICA 3461 would permit the amortization of gains or losses, we understand that Nortel has chosen to recognize gains and losses immediately for Canadian GAAP reporting purposes and therefore the above figures are appropriate for both Canadian and US reporting.

The following changes have been made to the valuation data and assumptions as at December 31, 2009 compared to the assumptions as at December 31, 2008:

- Disabled member data has been updated as at September 31, 2009;
- Per disabled member medical and dental claims cost assumptions have been updated to reflect 2008 and 2009 claims for the Union plan and 2009/2010 flex credits and contributions for the Non-Union plan;
- The termination assumption (includes mortality and recovery) has been changed to the Canadian Group Long Term Disability Termination Experience 1988-1997, from the GLTD 87 table with CIA modifications for the LTD benefits, and the continuation of medical, dental and life insurance benefits;
- For the SIB/STB benefits, the mortality assumption has been changed to the RP 2000 table with full generational projected improvements from the RP 2000 table with projected improvements to 2017;
- The LTD indexing has been changed to 2.5% per annum from 1.25% per annum. (Nortel's plan determines the actual benefit increase as 60% of the assumed inflation); and
- The discount rate for all benefits has been changed to 3.10% per annum from 2.10% per annum.

All of our valuation results include estimates of future obligations for administrative charges and applicable taxes that would be expected to be incurred to administer the plan in the future.

Summaries of the membership data, valuation methods and actuarial assumptions, and plan provisions used in calculating the obligations are provided in the attached Appendices A, B and C.

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23 February 2010 (Replaces 2 February 2010 letter)

Elizabeth Smith

Nortel Networks

## **Statement of Opinion**

After checking with representatives of Nortel, to the best of our knowledge, there are no events subsequent to the valuation date which, in our opinion, would have a material impact on the results of the valuation.

The valuations of the Plan were performed in accordance with generally accepted principles and procedures. The methods used in the valuations of benefit obligations and determination of plan costs were selected by Management in accordance with the requirements of CICA 3461 and US accounting standards.

Nortel's Management has selected the assumptions used in the valuations of the plan obligations and determination of plan costs. They are Management's best-estimate assumptions, selected for accounting purposes, in accordance with CICA 3461 and US accounting standards. These assumptions are in accordance with accepted actuarial practice and we believe each of these assumptions is reasonable.

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23 February 2010 (Replaces 2 February 2010 letter)

Elizabeth Smith

Nortel Networks

In my opinion,

- The data on which the valuations are based are sufficient and reliable for the purposes of the valuations, and
- The calculations have been made in accordance with the requirements of CICA 3461 and US accounting standards.

This report has been prepared and my opinion given, in accordance with accepted actuarial practice in Canada.

## Professional Qualifications

We are available to answer any questions on the material contained in this report or to provide explanations or further details, as may be appropriate. I, Ellen Whelan, the undersigned credentialed actuary, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any relationship, including investments or other services that could create a conflict-of-interest that would impair our objectivity.

Respectfully submitted,

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Ellen Whelan  
Fellow of the Canadian Institute of Actuaries  
Fellow of the Society of Actuaries

February 18, 2010

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Date

Mercer (Canada) Limited, 161 Bay Street, P.O. Box 501, Toronto, Ontario M5J 2S5  
Telephone: 416 868 2124 (E. Whelan)

Copy:

Leila Wong, Nortel Networks Corporation  
Paul Forestell, Mercer  
Teresa Palandra, Mercer  
Yeh-Ching Seto, Mercer  
Erica Yu, Mercer

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## Appendix A

### Membership Data

The valuation is based on membership data as at September 30, 2009. We have used and relied on financial and membership data supplied by Nortel and Sun Life. Plan membership data are summarized below.

**We have not independently verified the accuracy or completeness of the data except to the extent required by generally accepted professional standards and practices. Mercer will not be held responsible for any liability arising from the use of incomplete, inaccurate or not up-to-date data or documentation. We have applied tests for internal consistency, as well as for consistency with the data used for the previous valuation. These tests were applied to membership reconciliation, basic information (date of birth, date of hire, date of membership, gender, etc.), earnings, and service. The results of these tests were satisfactory.**

30.09.09	
<b>STD</b>	
Estimated STD Payments for year ending <sup>1</sup>	\$2.4 million <sup>2</sup>
<b>LTD Income Benefits, Medical and Dental Benefits</b>	
Number of disabled members	399
Average net monthly income benefits	\$2,482
Average age at disability	41.2
Average duration since disability	12.9 years
<b>Life – Union</b>	
Number of disabled members – Basic Life Insurance	150
Average age at disability	40.1
Average duration since disability	16.2
Average Basic Life Insurance	\$46,384
<b>Life – Non-Union</b>	
Number of disabled members – Basic Life Insurance	236
Average age at disability	42.2
Average duration since disability	10.8
Average Basic Life Insurance	\$64,506
<b>STB – Union</b>	
Number of SIB recipients	11
Average age	58.6
Average Monthly benefit amount	\$586
<b>SIB – Non-Union</b>	
Number of SIB recipients	82
Average age	69.4
Average Monthly benefit amount	\$1,394

<sup>1</sup> These amounts exclude benefits provided in the first five days of STD payments as this period is not tracked by Nortel.

<sup>2</sup> Payments are estimated by taking the October 2007 – September 2008 payments and increased by 3.0%.



## **Appendix B**

### **Valuation Methods and Assumptions**

#### ***Cost Method***

Obligation figures provided in this report represent the full present value of benefits expected to be received for all disabled members and their dependents and surviving spouses.

#### ***Funding Policy***

The benefits are defined benefit plans funded on a pay as you go basis (Nortel funds on a cash basis as benefits are paid).

#### ***Accounting Policy***

Under US accounting standards, the annual benefit cost (i.e. expense) is determined as the sum of the change in the unfunded liability during the year plus the actual cash payments for the post employment benefits made in the year. We understand that cash payments have been expensed when made. Nortel has chosen to recognize gains and losses immediately for Canadian GAAP reporting purposes also and therefore the same figures apply for both Canadian and US reporting.

#### ***Summary of Assumptions***

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people who are paid benefits, the amount of plan expenses and taxes, and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, actuarial assumptions, as described below, were selected to produce a single scenario from the range of possibilities. The results of that single scenario are included in this report. However, as you know, the future is uncertain and the plan's actual experience will likely differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of legislated changes to government coverage, plan experience, changes in expectations about the future, especially interest rates, inflation and health care trend rates.

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## **STD and Continuation of Benefits while on STD**

<i>Income benefit</i>	8.3% of October 2008 to September 2009 STD payments
<i>Medical, Dental and Life Insurance Benefits</i>	14% of obligation for income payments

## **LTD and Continuation of Medical/Dental Benefits while on LTD**

<i>Discount rate</i>	<ul style="list-style-type: none"> <li>3.10% per annum as at December 31, 2009</li> <li>2.10% per annum as at December 31, 2008</li> </ul>		
<i>COLA increase for members with indexed benefits</i>	<ul style="list-style-type: none"> <li>60% of 2.50% per annum at December 31, 2009</li> <li>60% of 1.25% per annum at December 31, 2008</li> </ul>		
<i>Medical trend rate</i>	9.0% per annum in 2009 grading down linearly to 5.0% per annum in and after 2028.		
<i>Dental trend rate</i>	4.75% per annum		
<i>CPP offset</i>	LTD claimants that are within the first three years of disability and do not currently have a CPP offset are assumed to be approved for a \$375/month CPP disability payment in the future.		
<i>Termination Rate (due to Mortality, Termination and Recovery) Assumption</i>	<ul style="list-style-type: none"> <li>Canadian Group Long Term Disability Termination Experience 1988-1997 as at December 31, 2009</li> <li>GLTD 87 with CIA modifications as at December 31, 2008</li> </ul>		
<i>Percentage married</i>	80% of union employees are assumed to be married. Actual flex election used for non-union.		
<i>Administration and taxes on LTD Income Benefit</i>	10.95% on liability		
<i>Assumed 2009 claim cost per disabled employee per year (includes administration costs and taxes)(see summary attached C-9, C-10)</i>		<b>Union</b>	<b>Non-Union</b>
	Medical	\$7,098	\$2,256 (average of flex options)
	Dental	\$1,008	\$1,202 (average of flex options)
<i>Incurred But Not Reported Reserve (IBNR)</i>	The IBNR reserve was estimated by applying a reserve factor on the assumed number of IBNR claims. The key assumptions used are as follows:		
		<b>Nortel Networks</b>	<b>Nortel Technology</b>
	Disability Incidence Rates	3.5/1,000 employees	3.5/1,000 employees
	Reporting Lag on Claims	7 months	6 months
	Number of Employees	2,554	1,685
	Average Gross Benefit	\$3,700/month	\$3,700/month

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## ***Life (Self-Insured Waiver of Premium)***

<i>Discount rate</i>	<ul style="list-style-type: none"> <li>3.10% per annum as at December 31, 2009</li> <li>2.10% per annum as at December 31, 2008</li> </ul>
<i>Termination Rate (due to Mortality, Termination and Recovery) Assumption</i>	<ul style="list-style-type: none"> <li>Canadian Group Long Term Disability Termination Experience 1988-1997 as at December 31, 2009</li> <li>GLTD 87 with CIA modifications as at December 31, 2008</li> </ul>
<i>Administration and taxes on Life Waiver Benefit</i>	7.95% of liability

## ***SIB (Non-Union)/STB (Union)***

<i>Discount rate</i>	<ul style="list-style-type: none"> <li>3.10% per annum as at December 31, 2009</li> <li>2.10% per annum as at December 31, 2008</li> </ul>
<i>Mortality table</i>	<ul style="list-style-type: none"> <li>RP 2000 no collar mortality table with full generational projected improvements as at December 31, 2009</li> <li>RP 2000 no collar mortality table with projected improvements to 2017 as at December 31, 2008</li> </ul>
<i>Administration costs and taxes on income payments</i>	9.46% of claims
<i>Incurred But Not Reported Reserve (IBNR)</i>	The IBNR Reserve is estimated to be negligible as there would only be a liability for STB and the liability for this five-year benefit is estimated to be small. There are no IBNR reserves related to SIB as the benefit is no longer provided to non-union employees. The reserve for the known claimants is assumed to be sufficient to cover IBNR reserves.



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## Union Per Disabled Member Claims

Health	Jan08-Dec08		Jan09-Aug09	
	Annualized Claims		Annualized Claims	
	1	1	0.66666667	0.66666667
	Employee:	Rest of Family:	Employee:	Rest of Family:
Aggregate Claims	838,941.08	227,440.97	502,933.78	124,477.07
Headcount:	229	189	209	174
Per Capita:	3,663.50	1,203.39	2,406.38	715.39
Monthly:	305.29	100.28	300.80	89.42
Load:	125%	100%	125%	100%
Marital Assumption:	n/a	80%	n/a	80%
Disabled Claim Cost:	461.84		447.54	
Weighting	25%		75%	
Trend	1.21		1.109	
Monthly Weighted Ave Health Claim Cost:			512	
	Admin	1.08		
	Taxes	1.07		
	Total Monthly		592	
	Annual		7,098	

Dental	Jan08-Dec08		Jan09-Aug09	
	Annualized Claims		Annualized Claims	
	1	1	0.66666667	0.66666667
	Employee:	Rest of Family:	Employee:	Rest of Family:
Aggregate Claims	85,502.12	86,334.89	60,112.16	57,896.81
Headcount:	227	184	207	170
Per Capita:	376.66	469.21	290.40	340.57
Monthly:	31.39	39.10	36.30	42.57
Load:	100%	100%	100%	100%
Marital Assumption:	n/a	80%	n/a	80%
Disabled Claim Cost:	62.67		70.36	
Weighting	25%		75%	
Trend	1.09725625		1.051558733	
Monthly Weighted Average Dental Claim Cost:			72.68	
	Admin	1.08		
	Taxes	1.07		
	Total Monthly		83.99	
	Annual		1,008	

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## **Appendix C**

### **Summary of Plan Provisions**

#### ***STD – Income Payments and Continuation of Medical and Dental Benefits and Life Insurance***

Short Term Disability (STD) benefits are provided for up to one year for most union employees. The benefit level ranges between 90% and 66-2/3%, depending on service and the duration of the claim. For example, the benefit level is 90% for the first 5 weeks and 66-2/3% for the next 47 weeks for a union employee with 2 years of service.

Non-union employees are entitled to STD benefits for up to six months. Effective January 1, 2006, the STD income benefit is 100% of salary for the first 6 weeks and 67% of salary for the remainder of the benefit period (20 weeks). Employee-paid optional STD is available to increase the STD benefit to 90% of salary for weeks 7 – 26.

Effective January 1, 2004, STD benefits for COEU members are the same as for non-union employees.

Medical and dental benefits and life insurance are continued during STD for both union and non-union employees.

#### ***LTD – Income Payments and Continuation of Medical and Dental Benefits***

Long Term Disability (LTD) benefits are provided after the STD benefits end.

For most union employees, the income benefit is a flat amount based on their benefit group. Effective January 1, 2004, members of the COEU have the non-union LTD FLEX plan design. Before January 1, 2004, the benefit ranged from \$1,850 to \$3,050 per month. The current benefit range for members of the CUCW is \$1,975 to \$2,250. The benefit for members of the CAW before April 1, 2003 ranged from \$1,850 to \$3,050 and after April 1, 2003 the range is \$1,950 to \$3,150. There is a 75% all source maximum and no provision for Cost of Living Adjustment (COLA) on the benefit.

For the non-union employees, the income benefit is based on their Flexible Benefit plan election, with the option of 50% or 67% of salary (reduced from 70%, effective January 1, 2006), with or without Cost of Living Adjustment (COLA) benefit. Beginning after two years of receiving LTD benefit payments, each January, the full amount of disability payment will be increased by the lesser of 60% of the Consumer Price Index or 6%. This COLA feature does not apply if the employee is covered under the core LTD option only.

For both union and non-union LTD employees, continuation of medical and dental benefits and life insurance is provided up to the earlier of recovery, death or age 65. If the non-union member has waived coverage or is in the Basic or Comprehensive plan, they will be put into

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the Comprehensive plan at no cost to them. If the member is in the Plus or Select plan, they can continue in that plan provided they pay the employee contributions.

## ***Life Insurance for Employees on LTD***

There is employer-paid basic coverage and employee-paid optional coverage for life insurance. Premium for the basic life insurance is continued and paid by Nortel. Nortel has no liability for the continuation of employee-paid optional life coverage.

For union employees, the basic coverage is a flat amount for members of the CUCW; a flat amount that varies by benefit group for members of the CAW; and the FLEX non union basic life for members of the COEU. The coverage varies from \$32,500 to about \$45,000. Effective April 1, 2003 basic life for members of the CAW increased for any employee not on LTD to range from \$76,000 to \$87,000 depending on benefit group.

For non-union employees, the basic coverage is one-time salary.

For both groups, the definition of disability is the same as the LTD definition.

## ***Survivor Income Benefits (SIB) and Survivor Transition Benefits (STB)***

Survivor Income Benefit (SIB) is a monthly income benefit provided upon the death of non-union employees. This benefit coverage is no longer provided with the exception of a closed group of surviving spouses. The payment of benefits is provided for the lifetime of the surviving spouse.

Survivor Transition Benefit (STB) is a monthly income benefit provided upon the death of certain union employees or certain retired union employees. In the case of an occupation-related death of an employee, an additional lump sum benefit is also provided. The monthly benefit is provided to the surviving spouse for 60 months following the death of the employee. Monthly benefit amounts range from \$250 - \$825.

Coverage for two of the union groups is as follows:

- CAW – effective April 1, 2003, there is no STB for active employees or future retirees. Employees on LTD at the time of this benefit change will maintain STB coverage while on LTD, but will no longer have STB coverage if they retire or return to active status.
- COEU – effective January 1, 2004, active employees were covered under the non union Flex plan, and STB benefits for current or future retirees were eliminated.

Current retirees retain the STB coverage.

**APPENDIX B - REPORT ON NON-PENSION POST RETIREMENT BENEFIT COST  
AND DISCLOSURE FOR THE FISCAL YEAR ENDING DECEMBER 31, 2009**

18 February 2010

## **Nortel Networks Corporation**

Report on Non-Pension Post Retirement  
Benefit Cost and Disclosure for the  
Fiscal Year Ending December 31, 2009  
under CICA Section 3461 and in  
accordance with US Accounting  
Standards

### **MERCER**

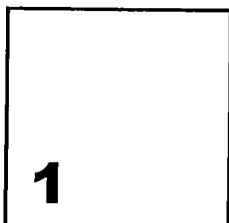


MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

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## **Report Highlights**

This report has been prepared by Mercer (Canada) Limited at the request of Nortel Networks Corporation ("Nortel"). This report provides information relating to Nortel's Canadian Non-Pension Post Retirement Benefit Plan ("the Plan") intended for use in accounting for the costs of the Plan and preparing Nortel's financial statements under Canadian and US accounting standards. The information presented in this report has been prepared in accordance with Section 3461 of the CICA Handbook ("CICA 3461") and US accounting standards as issued by the Financial Accounting Standards Board ("US accounting standards").

The Non-Pension Post Retirement Benefit Plan is a defined benefit plan funded on a cash basis by contributions from Nortel.

We have used CICA 3461 terminology in this report where it differs from US accounting terminology. A glossary of the differences between US accounting and CICA terminology is included at the end of this report.

Results are presented separately for Nortel Technology and Nortel Networks for the purposes of allocating the non-pension post retirement benefit cost between those entities. These results are intended for internal purposes only.

Nortel's fiscal year-end date is December 31 and the measurement date for the plan obligations as described in this report is December 31.

All results presented in this report are in Canadian dollars.



***Fiscal Year Ending December 31, 2009***

The benefit cost (also referred to as expense in this report) for the fiscal year ending December 31, 2009 is a credit of \$3,401,000. This amount includes a curtailment gain of \$5,835,000 and immediate recognition of prior service credits of \$9,910,000 on account of restructuring and workforce reduction activities in 2009, for a total curtailment gain of \$15,795,000. For CICA reporting of benefit cost, these items are shown separately, and for US reporting, they are shown in total.

The Accrued Benefit Obligation ("ABO") as at December 31, 2009 is \$368,830,000. The corresponding Accrued Benefit Liability is \$368,830,000 for the purposes of US accounting standards and \$472,195,000 for the purposes of CICA 3461.

The employer contributions and employer-paid benefit payments during the fiscal year ending December 31, 2009 were \$28,571,000.

Other comprehensive income (OCI) for the fiscal year ending December 31, 2009 was a charge of \$48,377,000.

It should be noted that future health care cost trends are especially difficult to predict, and actual experience is likely to differ from expected. The use of a health care cost trend of 1% per year above the assumptions used in this valuation for the fiscal year ending December 31, 2009 would result in an increase to the total ABO of approximately 6%.

***Fiscal Year Ending December 31, 2010***

The projected benefit cost calculated for the fiscal year ending December 31, 2010, using a discount rate of 6.09% per annum is a charge of \$8,302,000.

The actual benefit cost may differ from the above mentioned projection in order to reflect any benefit plan changes or significant events taking place during the coming fiscal year.

***Changes in Plan Provisions***

There were no changes in plan provisions since the last disclosure as of December 31, 2008.

***Changes in Actuarial Assumptions***

There have been changes in actuarial assumptions since the last disclosure as of December 31, 2008. Please refer to the Summary of Actuarial Assumptions in Appendix C of this report for a description of these changes.

***Changes in Actuarial Methods***

There were no changes in actuarial methods since the last disclosure as of December 31, 2008.

***Special Events Accounting Treatment***

Restructuring and workforce reduction activities in 2009 were material enough to warrant curtailment treatment. See Section 3 and Appendix A for more information.

In February 2010, we have been notified by Nortel that they will stop paying non-pension benefits after December 31, 2010. We have also been advised by Nortel that it intends to account for this event as a subsequent event. Any required curtailment and settlement in this respect would be accounted for in fiscal 2010 or later.

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## Principal Expense and Disclosure Information

A summary of principal expense and disclosure information, as required for disclosure purposes pursuant to CICA 3461 and US accounting standards, for the current and prior fiscal years in respect of the combined Medical and Life insurance plans for Nortel Networks and Nortel Technology follows (please refer to Appendix E for information by entity).

(All amounts in \$000's)

Components of Benefit Cost under CICA 3461	Fiscal Year Ending 31.12.09	Fiscal Year Ending 31.12.08
Current service cost	\$589	\$1,519
Interest cost	24,853	27,183
Actual return on plan assets	0	0
Actuarial loss (gain)	25,369	(152,342)
Plan amendments	0	0
Curtailment loss (gain)	(5,835)	0
<b>Costs arising in the period</b>	<b>\$44,976</b>	<b>(\$123,640)</b>
Differences between costs arising in the period and costs recognized in the period in respect of:		
▪ Return on plan assets	0	0
▪ Actuarial loss (gain)	(35,867)	152,3424
▪ Plan amendments	(12,510)	(2,808)
▪ Transitional obligation (asset)	0	0
<b>Benefit cost recognized</b>	<b>(\$3,401)</b>	<b>\$25,894</b>

(All amounts in \$000's)

<b>Components of Net Periodic Postretirement Benefit Cost (NPPBC) under US Accounting Standards</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
Service cost	\$589	\$1,519
Interest cost	24,853	27,183
Expected return on plan assets	0	0
Amortizations		
▪ Transition (asset) obligation	0	0
▪ Prior service (credit) cost	(2,600)	(2,808)
▪ Actuarial (gain) loss	(10,498)	0
<b>Sub-total NPPBC</b>	<b>\$12,344</b>	<b>\$25,894</b>
Curtailment (gain) loss	(15,745)	0
Settlement (gain) loss	0	0
Special termination benefits	0	0
<b>Total NPPBC</b>	<b>(\$3,401)</b>	<b>\$25,894</b>

<b>Weighted-Average Assumptions for Expense</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
Discount rate <sup>1</sup>	7.37%	5.60%
Rate of compensation increase (excluding merit and promotion)	1.25%	3.25%
Initial weighted average health care trend rate	6.14%	6.47%
Ultimate weighted average health care trend rate	4.82%	4.70%
Year ultimate rate reached	2028	2015

<b>Weighted-Average Assumptions for Disclosure</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
Discount rate	6.09%	7.37%
Rate of compensation increase (excluding merit and promotion)	2.50%	1.25%
Initial weighted average health care trend rate	6.11%	6.14%
Ultimate weighted average health care trend rate	4.82%	4.82%
Year ultimate rate reached	2028	2028

<sup>1</sup> Note the discount rate changed from 7.37% per annum to 6.65% per annum at July 1, 2009 and then to 6.09% per annum at September 30, 2009 due to the remeasurement of the plan at that date.

(All amounts in \$000's)

<b>Estimated Amounts That Will Be Amortized From AOCI into NPPBC in the Next Fiscal Year under US Accounting Standards</b>		
	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
Transition obligation (asset)	\$0	\$0
Prior service costs (credit)	(1,534)	(2,808)
Actuarial loss (gain)	(11,971)	(13,759)
<b>Total</b>	<b>(\$13,505)</b>	<b>(\$16,567)</b>

<b>Change in Accrued Benefit Obligation (ABO)</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
<b>ABO at end of prior year</b>	<b>\$352,425</b>	<b>\$498,503</b>
Adjustment for change in measurement date	N/A	2,379
Current service cost	589	1,519
Interest cost	24,853	27,183
Employees' contributions	0	0
Plan amendments	0	0
Benefits paid	(28,571)	(24,817)
Increase (decrease) in obligation due to curtailment	(5,835)	0
Actuarial loss (gain)	25,369	(152,342)
<b>ABO at end of year</b>	<b>\$368,830</b>	<b>\$352,425</b>

<b>Change in Plan Assets</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
<b>Fair value of plan assets at end of prior year</b>	<b>\$0</b>	<b>\$0</b>
Actual return on plan assets	0	0
Employer contributions	28,571	24,817
Employees' contributions	0	0
Benefits paid	(28,571)	(24,817)
<b>Fair value of plan assets at end of year</b>	<b>\$0</b>	<b>\$0</b>

<b>Reconciliation of Funded Status to Accrued Benefit Asset (Liability) under CICA 3461</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
<b>Funded status at end of year</b>	<b>(\$368,830)</b>	<b>(\$352,425)</b>
Employer contributions during period from measurement date to fiscal year end	0	0
Unamortized transitional obligation (asset)	0	0
Unamortized past service costs	(13,506)	(26,016)
Unamortized net actuarial loss (gain)	(89,859)	(125,726)
<b>Accrued benefit asset (liability)</b>	<b>(\$472,195)</b>	<b>(\$504,167)</b>

(All amounts in \$000's)

<b>Reconciliation of Funded Status under US Accounting Standards</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
ABPO at end of year	\$368,830	\$352,425
Fair value of plan assets at end of year	0	0
<b>Net asset (liability) amount recognized in statement of financial position – Surplus (Deficit) at end of year</b>	<b>(\$368,830)</b>	<b>(\$352,425)</b>

<b>Amounts Recognized in Statement of Financial Position Pursuant to US Accounting Standards Consist of</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
Current (liabilities)	(\$28,384)	(\$26,578)
Non-current (liabilities)	(340,446)	(325,847)
<b>Net asset (liability) amount recognized in statement of financial position</b>	<b>(\$368,830)</b>	<b>(\$352,425)</b>

<b>Amounts Not Yet Reflected in NPPBC and are included in AOCI under US Accounting Standards (Before Tax)</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
Transition asset (obligation)	\$0	\$0
Prior service credit (cost)	13,506	26,016
Actuarial gain (loss)	89,859	125,726
<b>AOCI</b>	<b>\$103,365</b>	<b>\$151,742</b>
Cumulative employer contributions in excess of NPPBC	(472,195)	(504,167)
<b>Net amount recognized in statement of financial position</b>	<b>(\$368,830)</b>	<b>(\$352,425)</b>

<b>Reconciliation of AOCI under US Accounting Standards</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
AOCI at the end of the prior year	\$151,742	\$17,872
Adjustment for change in measurement date	N/A	(702)
Adjustment for STB benefit payments	N/A	(13,088)
Adjustment for ADB benefit payments	N/A	(1,874)
Other comprehensive income (loss)	(48,377)	149,534
<b>AOCI at the end of the year</b>	<b>\$103,365</b>	<b>\$151,742</b>

(All amounts in \$000's)

<b>Changes Recognized in Other Comprehensive Income (Loss) during the period under US Accounting Standards</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
Transition (asset) obligation arising during the period	\$0	\$0
Prior service (credit) cost arising during the period	0	0
Net actuarial (gain) loss arising during the period	25,369	(152,342)
Non-routine events (i.e. curtailment, settlements)	0	0
Amortization of transitional asset (obligation)	0	0
Amortization of prior service credit (cost)	12,510	2,808
Amortization of actuarial gain (loss)	10,498	0
<b>Total changes recognized in other comprehensive (income) loss</b>	<b>\$48,377</b>	<b>(\$149,534)</b>

<b>Additional Information for Plans with APBO in Excess of Plan Assets</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
APBO	\$368,830	\$352,425
Fair value of plan assets	\$0	\$0

<b>Effect of Change in Assumed Health Care Cost Trend Rates</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
Effect on aggregate of current service cost and interest cost		
▪ One-percentage point increase	\$1,695	\$2,871
▪ One-percentage point decrease	(\$1,455)	(\$2,363)
Effect on ABO at fiscal year end		
▪ One-percentage point increase	\$20,982	\$22,119
▪ One-percentage point decrease	(\$18,078)	(\$19,026)

<b>Effect of Change in Assumed Discount Rate</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
Effect on ABO at fiscal year end		
▪ Twenty five basis points increase	(\$8,451)	(\$8,065)
▪ Twenty five basis points decrease	\$8,809	\$8,356



(All amounts in \$000's)

<b>Expected Cash Flows for the Plans</b>	<b>Life</b>	<b>Medical</b>	<b>Total</b>
Expected employer contributions for the next fiscal year	\$9,505	\$18,879	\$28,384
Expected benefit payments for fiscal year ending			
▪ 2010	\$9,505	\$18,879	\$28,384
▪ 2011	\$9,601	\$19,066	\$28,667
▪ 2012	\$9,662	\$19,160	\$28,822
▪ 2013	\$9,694	\$19,195	\$28,889
▪ 2014	\$9,681	\$19,188	\$28,869
▪ 2015-2019	\$47,131	\$95,078	\$142,209

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## **Certification**

We have prepared an actuarial valuation of Nortel's benefit obligations for accounting purposes as at April 1, 2008 and extrapolated those results to December 31, 2008. In accordance with our mandate, the purpose of this valuation and extrapolation is to determine the benefit cost of the Plan, in accordance with CICA 3461 and US accounting standards, to enable the Company to account for the costs of the Plan for the fiscal year beginning January 1, 2009 and ending December 31, 2009.

In addition, we have prepared a second actuarial valuation of Nortel's benefit obligations for accounting purposes as at August 31, 2009 and extrapolated those results to December 31, 2009. In accordance with our mandate, the purpose of this valuation and extrapolation is to determine the obligations of the Plan in accordance with CICA 3461 and US accounting standards to enable the Company to satisfy the disclosure requirements as at December 31, 2009 under CICA 3461 and US accounting standards.

This report has been prepared exclusively for Nortel. This valuation report may not be relied upon for any purpose other than what is described in this report or by any party other than Nortel and its auditors. Mercer is not responsible for the consequences of any other use.

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the Plan pays, the number of people paid benefits, the amount of plan expenses, and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, actuarial assumptions, as described in Appendix C, are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this report. However, the future is uncertain and the Plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of legislated changes to government coverages, plan experience, changes in expectations about the future and other factors.

Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a valuation report or reports.

### ***Plan Provisions***

The results of the valuations set forth in this report reflect the provisions of the Plan as of December 31, 2009. A summary of the plan provisions and the plan amendments are provided in Appendix D of this report.

There was no substantive commitment reported to us by Management.

### ***Data***

The 2009 benefit cost contained in this report is based on data as at April 1, 2008 updated to reflect the restructuring activity through December 31, 2009. The 2009 disclosure is based on August 31, 2009 membership data. The membership data is summarized later in this report.

We used and relied upon participant and financial data supplied by Nortel and Sun Life and plan documents provided by Nortel. We have tested the data for internal consistency and reasonableness and have no reason to doubt its substantial accuracy. Audits of the source records would not normally be performed in connection with this work and we have not done so in this case.

### ***Subsequent Events***

In February 2010, we have been notified by Nortel that they will stop paying non-pension benefits after December 31, 2010. We have also been advised by Nortel that it intends to account for this event as a subsequent event. Any required curtailment and settlement in this respect would be accounted for in fiscal 2010 or later.

### ***Methods and Assumptions***

Our valuation has been prepared on the basis of actuarial methods and assumptions selected by Nortel's management ("Management") for accounting purposes in accordance with CICA 3461 and US accounting standards. The actuarial methods and assumptions used for the purposes of this valuation are summarized in Appendix C.

We have provided advice on the selection of assumptions used in the development of the benefit cost and the ABO, notably the health care trend rate and variations in claims costs by age. The demographic assumptions are consistent with those used in the valuation of the company's pension plans.

The changes to the actuarial methods and assumptions used to develop disclosure information for the current fiscal period compared to those used to determine the disclosure information as of December 31, 2008, are as follows:

- The discount rate used to measure the obligations at December 31, 2008 was 7.37% per annum. The discount rate used to measure the obligation at September 30, 2009 and December 31, 2009 was 6.09% per annum.
- The mortality assumption has been updated from the RP2000 projected to 2017 to RP2000 Fully Generational.
- The claims cost assumptions have been updated to reflect claims experience and Mercer's new aging factors.
- The premiums for the British Columbia Medical Services Plan have been updated to reflect the recently announced premium increase effective January 1, 2010. The trend rate assumption for these premiums has also been changed to 6.0% per annum in 2009 to 2012 grading down to 4.5% per annum in and after 2015, from 3.0% per annum.
- The inflation assumption increased from 1.25% per annum at December 31, 2008 to 2.5% per annum.
- The salary scale assumption increased from 2.25% per annum at December 31, 2008 to 3.5% per annum (flat equivalent rate).

Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations. Future health care cost trends are difficult to predict, and actual experience is likely to differ from expected.

Actuarial computations under CICA 3461 and US accounting standards are intended for use in enabling the Company to account for the costs of post-retirement benefits under generally accepted accounting principles. Computations intended for other purposes may produce significantly different results. Accordingly, additional computations may be needed for other purposes such as purchase price calculations or plan design costings.

### ***Statement of Opinion***

The valuation of the Plan was performed in accordance with generally accepted principles and procedures. The methods used in the valuations of benefit obligations and determination of plan costs were selected by Management in accordance with the requirements of CICA 3461 and US accounting standards.

Nortel's Management has selected the assumptions used in the valuations of the plan obligations and determination of plan costs. They are Management's best-estimate assumptions, selected for accounting purposes, in accordance with CICA 3461 and US accounting standards. These assumptions are in accordance with accepted actuarial practice and we believe each of these assumptions are reasonable.

In my opinion,

- The data on which the valuations are based are sufficient and reliable for the purposes of the valuations, and
- The calculations have been made in accordance with the requirements of CICA 3461 and US accounting standards.

This report has been prepared and my opinions given, in accordance with accepted actuarial practice in Canada.

### ***Professional Qualifications***

We are available to answer any questions on the material contained in this report or to provide explanations or further details, as may be appropriate. I, Ellen Whelan, the undersigned credentialed actuary, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any relationship, including investments or other services that could create a conflict-of-interest that would impair our objectivity.

Respectfully submitted,



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Ellen Whelan  
Fellow of the Canadian Institute of Actuaries  
Fellow of the Society of Actuaries



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Erica Yu  
Associate of the Society of Actuaries

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February 18, 2010

Date

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February 18, 2010

Date

Mercer (Canada) Limited, 161 Bay Street, P.O. Box 501, Toronto, Ontario M5J 2S5

Telephone: 416 868 2124 (E. Whelan), 416 868 7954 (E. Yu)

## Appendix A

**Development of Costs**

This Appendix shows the financial position of the Plan and the calculation of the various components of plan costs.

**Financial Position of the Plan*****Medical Plan***

(All amounts in \$000's)

	01.01.09	01.01.08
1. ABO		
a. Retirees and survivors	(\$218,648)	(\$319,415)
b. Active fully eligible members	(18,386)	(22,808)
c. Active not fully eligible members	(9,551)	(31,718)
d. Total (a. + b. + c.)	<b>(\$246,585)</b>	<b>(\$373,941)</b>
2. Fair value of plan assets	0	0
3. Surplus (Deficit) (1(d) + 2.)	<b>(\$246,585)</b>	<b>(\$373,941)</b>
4. Employer contributions during period from measurement date to fiscal year end	0	3,990
5. Unamortized transitional obligation (asset)	0	0
6. Unamortized past service cost (gain)	(22,608)	(25,359)
7. Unamortized net actuarial loss (gain)	(100,415)	17,944
8. Accrued benefit asset (liability) (3. + 4. + 5. + 6. + 7.)	<b>(\$369,608)</b>	<b>(\$377,366)</b>

(All amounts in \$000's)

<b>Reconciliation of Accrued Benefit Asset (Liability) Under CICA 3461 – Medical</b>	<b>Fiscal Year Ending 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
1. Accrued benefit asset (liability) at beginning of year	(\$369,608)	(\$377,366)
2. (Benefit cost) income for the year	6,347	(19,350)
3. Benefit cost for gap period	N/A	(4,839)
4. Benefit payments	19,469	18,859
5. Adjustment for STB benefit payments	N/A	13,088
<b>6. Accrued benefit asset (liability) at end of year</b>	<b>(\$343,792)</b>	<b>(\$369,608)</b>

<b>Interest Cost – Medical</b>	<b>Period from 01.01.09 to 30.06.09</b>	<b>Period from 01.07.09 to 30.09.09</b>	<b>Period from 01.10.09 to 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
1. ABO <sup>2</sup>	\$246,585	\$261,023	\$273,870	\$373,941
2. Current service cost adjusted for the period	208	95	90	0
3. a. Plan amendment	0	0	0	0
b. Weighted for timing	0	0	0	0
4. a. Benefit payments	18,860	19,065	19,160	21,849
b. Weighted for timing and adjusted for the period	4,677	2,403	2,415	10,925
<b>5. Average ABO (1. + 2. + 3.b. – 4.b.)</b>	<b>\$242,116</b>	<b>\$258,715</b>	<b>\$271,545</b>	<b>\$364,173</b>
6. a. Discount rate	7.37%	6.65%	6.09%	5.60%
b. Weighted for timing	3.65%	1.68%	1.53%	5.60%
<b>7. Interest cost (5. × 6.b.)</b>	<b>\$8,849</b>	<b>\$4,337</b>	<b>\$4,169</b>	<b>\$20,394</b>

<b>Past Service Cost – Medical</b>	<b>Unamortized Amount at Beginning of Period</b>	<b>Years Remaining</b>	<b>Amortization Amount</b>
1. a. Jan 1, 2009 – Jun 30, 2009	(\$58)	1.52	(\$19)
Jul 1, 2009 – Sep 30, 2008	(36)	1.02	(9)
Oct 1, 2009 – Dec 31, 2009	(26)	0.77	(8)
b. Jan 1, 2009 – Jun 30, 2009	(22,550)	10.42	(1,073)
Jul 1, 2009 – Sep 30, 2008	(19,654)	9.92	(499)
Oct 1, 2009 – Dec 31, 2009	(18,676)	9.67	(487)
<b>2. Total</b>	<b>N/A</b>	<b>N/A</b>	<b>(\$2,095)</b>

<sup>2</sup> Fiscal 2008 interest cost is calculated based on September 30, 2007 ABO.

(All amounts in \$000's)

<b>Amortizations – Medical</b>	<b>Amortization Amount</b>
3. Unamortized loss (gain) subject to amortization as of January 1, 2009 for period January 1, 2009 to June 30, 2009	
a. Unamortized net actuarial loss (gain)	(\$100,415)
b. ABO	246,585
c. 10% of ABO b.	24,659
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(75,756)
e. Expected average remaining service lifetime	6.00
f. Weight for time period	0.496
g. <b>Amortization amount (d. ÷ e. x f.)</b>	<b>(\$6,261)</b>
4. Reconciliation of unamortized loss (gain)	
a. June 30, 2009	(\$94,154)
b. Remeasurement as of June 30, 2009	16,747
c. <b>June 30, 2009 (a. + b.)</b>	<b>(\$77,407)</b>
5. Unamortized loss (gain) subject to amortization as of June 30, 2009 for period July 1, 2009 to September 30, 2009	
a. Unamortized net actuarial loss (gain)	(\$77,407)
b. ABO	261,023
c. 10% of ABO b.	26,102
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(51,305)
e. Expected average remaining service lifetime	6.00
f. Weight for time period	0.252
g. <b>Amortization amount (d. ÷ e. x f.)</b>	<b>(\$2,156)</b>
6. Reconciliation of unamortized loss (gain)	
a. September 30, 2009	(\$75,251)
b. Remeasurement as of September 30, 2009	14,294
c. <b>September 30, 2009 (a. + b.)</b>	<b>(\$60,957)</b>



(All amounts in \$000's)

<b>Amortizations – Medical</b>	<b>Amortization Amount</b>
7. Unamortized loss (gain) subject to amortization as of September 30, 2009 for period October 1, 2009 to December 31, 2009	
a. Unamortized net actuarial loss (gain)	(60,957)
b. ABO	273,870
c. 10% of ABO b.	27,387
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(33,570)
e. Expected average remaining service lifetime	6.00
f. Weight for time period	0.252
g. <b>Amortization amount (d. ÷ e. x f.)</b>	<b>(\$1,410)</b>

**Nortel Networks Corporation**

Report on Non-Pension Post Retirement Benefit Cost and Disclosure  
for Fiscal 2009 under CICA 3461 and in accordance with US Accounting Standards

(All amounts in \$000's)

<b>Medical</b>	<b>Curtailment as at 30.06.09</b>			<b>Curtailment as at 30.09.09</b>			<b>Curtailment at 31.12.09</b>		
	<b>Before Any Curtailment</b>	<b>Impact of Curtailment</b>	<b>After Curtailment</b>	<b>Before Any Curtailment</b>	<b>Impact of Curtailment</b>	<b>After Curtailment</b>	<b>Before Any Curtailment</b>	<b>Impact of Curtailment</b>	<b>After Curtailment</b>
Fair value of plan assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ABO	263,036	(2,013)	261,023	274,943	(1,073)	273,870	247,776	(410)	247,366
<b>Surplus (Deficit)</b>	<b>(\$263,036)</b>	<b>\$2,013</b>	<b>(\$261,023)</b>	<b>(\$274,943)</b>	<b>\$1,073</b>	<b>(\$273,870)</b>	<b>(\$247,776)</b>	<b>\$410</b>	<b>(\$247,366)</b>
Unamortized transitional obligation (asset)	0	0	0	0	0	0	0	0	0
Unamortized past service cost	(21,516)	1,826	(19,690)	(19,182)	480	(18,702)	(18,207)	6,372	(11,835)
Unamortized net actuarial loss (gain)	(77,407)	0	(77,407)	(60,957)	0	(60,957)	(85,071)	0	(85,071)
<b>Accrued benefit asset (liability)</b>	<b>(\$361,959)</b>	<b>\$3,839</b>	<b>(\$358,120)</b>	<b>(\$355,082)</b>	<b>\$1,553</b>	<b>(\$353,529)</b>	<b>(\$351,054)</b>	<b>\$6,782</b>	<b>(\$344,272)</b>

(All amounts in \$000's)

<b>Medical (Gains) and Losses Due to:</b>	<b>Remeasurement as at 30.06.09</b>	<b>Remeasurement as at 30.09.09</b>	<b>Remeasurement as at 31.12.09</b>	<b>Total</b>
1. Change in demographics	\$0	\$0	(\$13,425)	(\$13,425)
2. Claims cost differing from expected, BC provincial premium and Quebec drug offset	0	0	(13,201)	(13,201)
3. Change in mortality table	0	0	1,103	1,103
4. Change in discount rate	\$16,747	14,294	0	31,041
5. Difference between actual benefit payments and expected benefit payments	0	0	480	480
<b>6. Total</b>	<b>\$16,747</b>	<b>\$14,294</b>	<b>(\$25,043)</b>	<b>\$5,998</b>

**Life Insurance Plan**

(All amounts in \$000's)

	01.01.09	01.01.08
1. ABO		
a. Retirees and survivors	(\$97,244)	(\$110,030)
b. Active fully eligible members	(5,146)	(7,249)
c. Active not fully eligible members	(3,450)	(7,283)
d. Total (a. + b. + c.)	(\$105,840)	(\$124,562)
2. Fair value of plan assets	0	0
3. Surplus (Deficit) (1(d) + 2.)	(\$105,840)	(\$124,562)
4. Employer contributions during period from measurement date to fiscal year end	0	808
5. Unamortized transitional obligation (asset)	0	0
6. Unamortized past service cost (gain)	(3,408)	(4,167)
7. Unamortized net actuarial loss (gain)	(25,311)	(6,290)
8. Accrued benefit asset (liability) (3. + 4. + 5. + 6. + 7.)	(\$134,559)	(\$134,211)

Reconciliation of Accrued Benefit Asset (Liability) Under CICA 3461 – Life	Fiscal Year Ending 31.12.09	Fiscal Year Ending 31.12.08
1. Accrued benefit asset (liability) at beginning of year	(\$134,559)	(\$134,211)
2. Benefit cost for the year	(2,945)	(6,544)
3. Benefit cost for gap period	N/A	(1,636)
4. Benefit payments	9,102	5,958
5. Adjustment for ADB benefit payments	N/A	1,874
6. Accrued benefit asset (liability) at end of year	(\$128,402)	(\$134,559)

(All amounts in \$000's)

**Interest Cost**

<b>Interest Cost – Life</b>	<b>Period from 01.01.09 to 30.06.09</b>	<b>Period from 01.07.09 to 30.09.09</b>	<b>Period from 01.10.09 to 31.12.09</b>	<b>Fiscal Year Ending 31.12.08</b>
1. ABO <sup>3</sup>	\$105,840	\$112,992	\$119,321	\$124,562
2. Current service cost adjusted for the period	94	49	53	0
3. a. Plan amendment	0	0	0	0
b. Weighted for timing	0	0	0	0
4. a. Benefit payments	7,718	7,856	7,922	7,379
b. Weighted for timing and adjusted for the period	1,914	990	999	3,690
<b>5. Average ABO (1. + 2. + 3.b. – 4.b.)</b>	<b>\$104,020</b>	<b>\$112,051</b>	<b>\$118,375</b>	<b>\$121,234</b>
6. a. Discount rate	7.37%	6.65%	6.09%	5.60%
b. Weighted for timing	3.65%	1.68%	1.53%	5.60%
<b>7. Interest cost (5. × 6.b.)</b>	<b>\$3,802</b>	<b>\$1,878</b>	<b>\$1,817</b>	<b>\$6,789</b>

<sup>3</sup> Fiscal 2008 interest cost is calculated based on September 30, 2007 ABO.

(All amounts in \$000's)

<b>Past Service Cost – Life</b>		<b>Unamortized Amount at Beginning of Period</b>	<b>Years Remaining</b>	<b>Amortization Amount</b>
1.	a. Jan 1, 2009 – Jun 30, 2009	(\$413)	1.30	(\$158)
	Jul 1, 2009 – Sep 30, 2008	(233)	0.8	(73)
	Oct 1, 2009 – Dec 31, 2009	(156)	0.3	(0)
	b. Jan 1, 2009 – Jun 30, 2009	(2,995)	10.42	(143)
	Jul 1, 2009 – Sep 30, 2008	(2,610)	9.92	(67)
	Oct 1, 2009 – Dec 31, 2009	(2,480)	9.67	(64)
<b>2. Total</b>		<b>N/A</b>	<b>N/A</b>	<b>(\$505)</b>

<b>Amortizations – Life</b>		<b>Amortization Amount</b>
3.	Unamortized loss (gain) subject to amortization as of January 1, 2009 for period January 1, 2009 to June 30, 2009	
	a. Unamortized net actuarial loss (gain)	(\$25,311)
	b. ABO	105,840
	c. 10% of ABO b.	10,584
	d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(14,727)
	e. Expected average remaining service lifetime	13.00
	f. Weight for time period	0.496
	<b>g. Amortization amount (d. ÷ e. x f.)</b>	<b>(\$562)</b>
4.	Reconciliation of unamortized loss (gain)	
	a. June 30, 2009	(\$24,749)
	b. Remeasurement as of June 30, 2009	7,826
	<b>c. June 30, 2009 (a. + b.)</b>	<b>(\$16,923)</b>
5.	Unamortized loss (gain) subject to amortization as of June 30, 2009 for period July 1, 2009 to September 30, 2009	
	a. Unamortized net actuarial loss (gain)	(\$16,923)
	b. ABO	112,992
	c. 10% of ABO b.	11,299
	d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	(5,624)
	e. Expected average remaining service lifetime	13.00
	f. Weight for time period	0.252
	<b>g. Amortization amount (d. ÷ e. x f.)</b>	<b>(\$109)</b>

(All amounts in \$000's)

<b>Amortizations – Life</b>	<b>Amortization Amount</b>
6. Reconciliation of unamortized loss (gain)	
a. September 30, 2009	(\$16,814)
b. Remeasurement as of September 30, 2009	6,679
c. <b>September 30, 2009 (a. + b.)</b>	<b>(\$10,135)</b>
7. Unamortized loss (gain) subject to amortization as of September 30, 2009 for period October 1, 2009 to December 31, 2009	
a. Unamortized net actuarial loss (gain)	(\$10,135)
b. ABO	119,321
c. 10% of ABO b.	11,932
d. Unamortized net actuarial loss (gain) subject to amortization (excess of a. over c)	0
e. Expected average remaining service lifetime	13.00
f. Weight for time period	0.252
g. <b>Amortization amount (d. ÷ e. x f.)</b>	<b>\$0</b>

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Report on Non-Pension Post Retirement Benefit Cost and Disclosure  
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(All amounts in \$000's)

<b>Life</b>	<b>Curtailment as at 30.06.09</b>			<b>Curtailment as at 30.09.09</b>			<b>Curtailment at 31.12.09</b>		
	<b>Before Any Curtailment</b>	<b>Impact of Curtailment</b>	<b>After Curtailment</b>	<b>Before Any Curtailment</b>	<b>Impact of Curtailment</b>	<b>After Curtailment</b>	<b>Before Any Curtailment</b>	<b>Impact of Curtailment</b>	<b>After Curtailment</b>
Fair value of plan assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ABO	113,734	(742)	112,992	119,618	(297)	119,321	(122,764)	(1,300)	121,464
<b>Surplus (Deficit)</b>	<b>(\$113,734)</b>	<b>\$742</b>	<b>(\$112,992)</b>	<b>(\$119,618)</b>	<b>\$297</b>	<b>(\$119,321)</b>	<b>(\$122,764)</b>	<b>\$1,300</b>	<b>(\$121,464)</b>
Unamortized transitional obligation (asset)	0	0	0	0	0	0	0	0	0
Unamortized past service cost	(3,107)	264	(2,843)	(2,703)	67	(2,636)	(2,572)	901	(1,671)
Unamortized net actuarial loss (gain)	(16,923)	0	(16,923)	(10,135)	0	(10,135)	(6,565)	0	(6,565)
<b>Accrued benefit asset (liability)</b>	<b>(\$133,764)</b>	<b>\$1,006</b>	<b>(\$132,758)</b>	<b>(\$132,456)</b>	<b>\$364</b>	<b>(\$132,092)</b>	<b>(\$131,901)</b>	<b>\$2,201</b>	<b>(\$129,700)</b>



**Nortel Networks Corporation**Report on Non-Pension Post Retirement Benefit Cost and Disclosure  
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(All amounts in \$000's)

<b>Life (Gains) and Losses Due to:</b>	<b>Remeasurement as at 30.06.09</b>	<b>Remeasurement as at 30.09.09</b>	<b>Remeasurement as at 31.12.09</b>	<b>Total</b>
1. Change in demographics	\$0	\$0	\$2,178	\$2,178
2. Change in mortality table	0	0	187	187
3. Change in salary scale assumption	0	35	1,203	1,203
4. Change in discount rate	7,826	6,644	0	14,505
5. Difference between actual benefit payments and expected benefit payments	0	0	1,298	1,298
<b>6. Total</b>	<b>\$7,826</b>	<b>\$6,679</b>	<b>\$4,866</b>	<b>\$19,371</b>

Appendix B

## **Membership Data**

The actuarial valuation is based on membership data as at August 31, 2009, provided by Nortel.

**We have not independently verified the accuracy or completeness of the data except to the extent required by generally accepted professional standards and practices. Mercer will not be held responsible for any liability arising from the use of incomplete, inaccurate or not up-to-date data or documentation. We have applied tests for internal consistency, as well as for consistency with the data used for the previous valuation. These tests were applied to membership reconciliation, basic information (date of birth, date of hire, date of membership, gender, etc.), earnings, and service. The results of these tests were satisfactory.**

Plan membership data as at August 31, 2009 and April 1, 2008 (the last valuation) are summarized in the following pages.

**Analysis of Membership Data**

<b>As at 31.08.09</b>	<b>Nortel Networks</b>			<b>Nortel Technology</b>
	<b>Non-Union</b>	<b>Union</b>	<b>Total</b>	<b>Non-Union</b>
<b>Active and LTD Members</b>				
Number	2,014	264	2,278	1,528
Average earnings	\$111,925	N/A	N/A	\$118,270
Average age (years)	47.1	52.9	47.8	45.4
Average service (years)	18.7	26.6	19.6	17.3
<b>Active and LTD Members Terminations as at 31.12.09</b>				
Number	615	26	641	546
Average age (years)	46.4	46.3	46.4	44.7
Average service (years)	17.9	19.9	17.9	16.3
<b>Inactive Members</b>				
<b>Retirees</b>				
Total Number	4,237	5,558	9,795	872
▪ Average Age	72.1	73.4	72.8	69.2
Number with Medical/Dental	3,169	5,512	8,681	663
▪ Average Age	73.5	73.5	73.5	70.3
Number with Life Insurance	4,056	5,449	9,505	858
▪ Average Age	71.5	73.2	72.5	69.0
▪ Average Life Insurance	\$38,323	\$14,897	\$24,893	\$45,722
<b>Spouses of Retirees</b>				
Number with Medical/Dental	2,306	3,405	5,711	443
Average age (years)	69.9	71.2	70.7	67.1
<b>Surviving Spouses</b>				
Number with Medical/Dental	543	637	1,180	34
Average age (years)	80.1	77.3	78.6	77.9
Number currently in receipt of STB <sup>4</sup>	N/A	297	297	N/A
Average age (years)	N/A	77.4	77.4	N/A

<sup>4</sup> A split of STB recipients by status (active/retired) was not available. We determined the split of STB obligation between that for active employees and that for retired employees by age at death of the employee. The number of members in receipt of STB from death's of active members has been estimated to be 11 (average age of spouse is 58.6). The obligation for these members has been included in the post employment figures. The number of members in receipt of STB from death's of retired members has been estimated to be 297 (average age of spouse is 77.4). The obligation for these members has been included in the post retirement figures along with an obligation for potential future retired members' death where a spouse would be eligible to receive STB benefits.

<b>As at 01.04.08</b>	<b>Nortel Networks</b>			<b>Nortel Technology</b>
	<b>Non-Union</b>	<b>Union</b>	<b>Total</b>	<b>Non-Union</b>
<b>Active and LTD Members</b>				
Number	2,726	323	3,049	2,131
Average earnings	\$108,350	N/A	96,872	112,620
Average age (years)	45.6	51.8	46.2	44.2
Average service (years)	16.8	25.2	17.7	15.4
<b>Inactive Members</b>				
<b>Retirees</b>				
Number	4,185	5,534	9,719	850
Average age (years)	70.8	72.0	71.5	68.0
<b>Spouses of Retirees</b>				
Number	2,801	3,419	6,220	555
Average age (years)	67.3	69.7	68.6	64.6
<b>Surviving Spouses</b>				
Number	749	637	1,386	73
Average age (years)	76.6	75.8	76.3	72.6

**Nortel Networks Distribution of Active and Disabled Members  
By Age Group and Completed Years of Service as at 31.08.09**

<b>Age</b>	<b>0-4</b>	<b>5-9</b>	<b>10-14</b>	<b>15-19</b>	<b>20-24</b>	<b>25-29</b>	<b>30-34</b>	<b>35-39</b>	<b>40+</b>	<b>Total</b>
Under 20										0
20-24										0
25-29	12	9								21
30-34	10	40	33	1						84
35-39	8	66	149	36						259
40-44	4	80	118	160	83	3				448
45-49	2	49	101	103	205	129	5			594
50-54	1	22	62	60	75	184	49	13		466
55-59	2	7	36	19	30	75	54	28	2	253
60-64		3	8	9	11	34	27	31	22	145
65-69		1			1			5	1	8
70-74										0
75+										0
<b>Total</b>	<b>39</b>	<b>277</b>	<b>507</b>	<b>388</b>	<b>405</b>	<b>425</b>	<b>135</b>	<b>77</b>	<b>25</b>	<b>2,278</b>

The distribution of the active members by age and completed years of service as at August 31, 2009 is summarized as follows:

**Nortel Technology Distribution of Active and Disabled Members  
By Age Group and Completed Years of Service as at 31.08.09**

<b>Age</b>	<b>0-4</b>	<b>5-9</b>	<b>10-14</b>	<b>15-19</b>	<b>20-24</b>	<b>25-29</b>	<b>30-34</b>	<b>35-39</b>	<b>40+</b>	<b>Total</b>
Under20										0
20-24										0
25-29	6	6								12
30-34	2	49	47	1						99
35-39	2	48	119	51						220
40-44		61	113	157	54	2				387
45-49		33	91	94	168	58				444
50-54	1	9	48	42	49	79	19	1		248
55-59		6	18	12	11	17	13	4		81
60-64			3	5	3	7	5	5	2	30
65-69		1	1		1	1	2		1	7
70-74										0
75+										0
<b>Total</b>	<b>11</b>	<b>213</b>	<b>440</b>	<b>362</b>	<b>286</b>	<b>164</b>	<b>39</b>	<b>10</b>	<b>3</b>	<b>1,528</b>

**Total Distribution of Active and Disabled Members  
By Age Group and Completed Years of Service as at 31.08.09**

<b>Age</b>	<b>0-4</b>	<b>5-9</b>	<b>10-14</b>	<b>15-19</b>	<b>20-24</b>	<b>25-29</b>	<b>30-34</b>	<b>35-39</b>	<b>40+</b>	<b>Total</b>
Under 20										0
20-24										0
25-29	18	15								33
30-34	12	89	80	2						183
35-39	10	114	268	87						479
40-44	4	141	231	317	137	5				835
45-49	2	82	192	197	373	187	5			1,038
50-54	2	31	110	102	124	263	68	14		714
55-59	2	13	54	31	41	92	67	32	2	334
60-64		3	11	14	14	41	32	36	24	175
65-69		2	1		2	1	2	5	2	15
70-74										0
75+										0
<b>Total</b>	<b>50</b>	<b>490</b>	<b>947</b>	<b>750</b>	<b>691</b>	<b>589</b>	<b>174</b>	<b>87</b>	<b>28</b>	<b>3,806</b>

The distribution of the retirees and surviving spouses by age as at August 31, 2009 is summarized as follows:

**Nortel Networks Distribution of Retirees and  
Surviving Spouses By Age Group as at 31.08.09**

Age	Retirees	Surviving Spouses	Total
Under 50	2	0	11
50 – 54	73	4	84
55 – 59	448	11	475
60 – 64	1,680	50	1,747
65 – 69	1,783	105	1,919
70 – 74	1,839	183	2,052
75 +	3,970	827	4,894
<b>Total</b>	<b>9,795</b>	<b>1,180</b>	<b>11,182</b>

**Nortel Technology Distribution of Retirees and  
Surviving Spouses By Age Group as at 31.08.09**

Age	Retirees	Surviving Spouses	Total
Under 50	2	0	5
50 – 54	8	2	11
55 – 59	68	1	72
60 – 64	213	0	216
65 – 69	215	5	229
70 – 74	174	3	183
75 +	192	23	229
<b>Total</b>	<b>872</b>	<b>34</b>	<b>945</b>

**Nortel Total Distribution of Retirees and Surviving  
Spouses By Age Group as at as at 31.08.09**

Age	Retirees	Surviving Spouses	Total
Under 50	4	0	16
50 – 54	81	6	95
55 – 59	516	12	547
60 – 64	1,893	50	1,963
65 – 69	1,998	110	2,148
70 – 74	2,013	186	2,235
75 +	4,162	850	5,123
<b>Total</b>	<b>10,667</b>	<b>1,214</b>	<b>12,127</b>

Appendix C

## **Valuation Methods and Assumptions**

This Appendix describes the methods and assumptions used to value the Plan as well as accounting policies used to calculate the benefit cost.

### **Cost Method**

Obligations shown in this report are determined using the projected benefit method pro-rated on service (as defined in CICA 3461 and under US accounting standards). The objective under this method is to expense each member's benefits under the Plan taking into consideration projections of benefit costs to and during retirement, and allocating an equal portion of the costs to each year of service.

For retirees, spouses of retirees and surviving spouses, the ABO at a point in time is the actuarial present value of all future projected benefit as at that point in time.

For each active member, a "full eligibility" date is determined as the first date the member has or will have met the age and service requirements to qualify for all benefits after retirement.



**Full eligibility** varies by plan and is defined as follows:

Program	Group	Attribution Period	
		Start Date	End Date (Full Eligibility Date)
Grandfathered Traditional (non-union)	Part I	Entry date in pension plan	Earlier of age 55 and 2 years of pensionable service and the date when the member completes 30 years of pensionable service
	Part II	Hire date	Age 55 and 5 years of continuous service
Non-Grandfathered Traditional (non-union)	Part I	Entry date in pension plan	Earlier of age 55 and 2 years of pensionable service and the date when the member completes 30 years of pensionable service
	Part II	Hire date	Age 55 and 10 years of continuous service
Balanced (non-union)	All	Later of hire age and age 40	Assumed Retirement Age
SARP (union)	All	Later of hire age and age 40	Assumed Retirement Age

For active members who have reached “full eligibility”, the ABO at a point in time is the actuarial present value of all future projected benefits as at that point in time. For these members, the current service cost is zero.

For active members who have not yet reached “full eligibility”, the ABO at a point in time is the actuarial present value of all future projected benefits, as at that point in time multiplied by the ratio of service at that time to projected service at “full eligibility”. For these members, the Current Service Cost (for the year beginning at that time) is the actuarial present value of benefits deemed to accrue in the year beginning at that time, and is determined as the actuarial present value of all future projected benefits divided by the projected service at “full eligibility”.

The plan's Current Service Cost is the sum of the individual members' Current Service Cost, and the Plan's ABO is the sum of the ABOs for all members under the Plan.

There have been no changes in the cost method since the last valuation.

## Funding Policy

The post-retirement benefits are funded on a pay-as-you-go basis. (Nortel funds on a cash basis as benefits are paid.)

## Accounting Policies

Management applied the Recommendations of CICA 3461 retroactively as at January 1, 2000.

The Medical and Life plans are treated as two separate plans for the purpose of determining cumulative gains and losses. For each plan, cumulative gains and losses in excess of 10% of the beginning of year ABO are amortized over the expected average remaining service to retirement of active members expected to receive benefits under the Plan. Nortel Networks and Nortel Technology are treated as a single entity for the purposes of determining cumulative gains and losses and the amortization in future periods.

The Company has elected to amortize past service costs resulting from plan amendments on a linear basis over the expected average remaining service (to full eligibility) of active members expected to receive benefits under the Plan.

Nortel's fiscal year-end is December 31 and the measurement date is December 31.

The attribution period is the period of an employee's service to which the expected non-pension post-retirement benefit obligation for that employee is assigned. The beginning of the attribution period is the date of hire (or pension plan membership date, depending on the Plan), which is the beginning of the credited service period. The end of the attribution period is the full eligibility date for the various Nortel plans, as described in the summary of plan provisions section of this report.

## Summary of Assumptions

The following assumptions were used in valuing the benefit obligations under the Plan.

Measurement date	December 31																											
Discount rate	6.09% per annum for remeasurement as at September 30, 2009 and 2009 benefit cost for the period from October 1, 2009 to December 31, 2009, 2009 disclosure and 2010 benefit cost 6.65% per annum for remeasurement as at June 30, 2009 and 2009 benefit cost for the period from July 1, 2009 to September 30, 2009 7.37% per annum for 2008 disclosure and 2009 benefit cost for the period from January 1, 2009 to June 30, 2009																											
CPI	2.50% per annum for remeasurement as at September 30, 2009 and 2009 benefit cost for the period from October 1, 2009 to December 31, 2009, 2009 disclosure and 2010 benefit cost 2.00% per annum for remeasurement as at June 30, 2009 and 2009 benefit cost for the period from July 1, 2009 to September 30, 2009 1.25% per annum for 2008 disclosure and 2009 benefit cost for the period from January 1, 2009 to June 30, 2009																											
Salary increases	Salary increases used to determine future life insurance benefits for non-union employees are assumed to be the sum of two factors: <ul style="list-style-type: none"><li>▪ An inflationary and productivity component; and</li><li>▪ Merit and promotional increases.</li></ul> For 2008 year end disclosure and 2009 benefit cost, the inflation and productivity component was 1.25% per annum. For 2009 disclosure, the inflation and productivity component is 2.50% (i.e. inflation = CPI, productivity = 0%).																											
Merit and promotion	Merit and promotion increases were based on age, Job Code Incentive (JCI) level and Professional / Non-professional code as follows: <table><tr><th>Age</th><th>Prof &amp; JCI above 1 or Non-Prof &amp; JCI above 4</th><th>Prof &amp; JCI Level 1 or Non-Prof &amp; JCI below 5</th></tr><tr><td>20</td><td>0.00%</td><td>0.00%</td></tr><tr><td>25</td><td>4.00%</td><td>1.00%</td></tr><tr><td>30</td><td>4.00%</td><td>0.50%</td></tr><tr><td>35</td><td>3.00%</td><td>0.50%</td></tr><tr><td>40</td><td>2.25%</td><td>0.50%</td></tr><tr><td>45</td><td>1.75%</td><td>0.00%</td></tr><tr><td>50</td><td>1.25%</td><td>0.00%</td></tr><tr><td>55</td><td>1.25%</td><td>0.00%</td></tr></table>	Age	Prof & JCI above 1 or Non-Prof & JCI above 4	Prof & JCI Level 1 or Non-Prof & JCI below 5	20	0.00%	0.00%	25	4.00%	1.00%	30	4.00%	0.50%	35	3.00%	0.50%	40	2.25%	0.50%	45	1.75%	0.00%	50	1.25%	0.00%	55	1.25%	0.00%
Age	Prof & JCI above 1 or Non-Prof & JCI above 4	Prof & JCI Level 1 or Non-Prof & JCI below 5																										
20	0.00%	0.00%																										
25	4.00%	1.00%																										
30	4.00%	0.50%																										
35	3.00%	0.50%																										
40	2.25%	0.50%																										
45	1.75%	0.00%																										
50	1.25%	0.00%																										
55	1.25%	0.00%																										

*Health care cost trend  
rates (2008 disclosure  
and 2009 benefit cost)*

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***Grandfathered Traditional Program***

Semi-Private Hospital	4.75% per annum
Prescription Drugs	9.00% per annum in 2008 grading down to 5.00% per annum in and after 2028
Other Health Care	4.75% per annum
Vision Care	0.00% per annum
Dental Care	4.75% per annum
Provincial Premium	3.25% per annum

***Non-Grandfathered Traditional Program***

Catastrophic Plan	8.00% per annum in 2008 grading down to 5.00% per annum in and after 2028
Healthcare Spending Account Allocation	No increases
Provincial Premium	3.25% per annum

***Balanced Program and SARP***

Healthcare Spending Account Allocation	No increases
Provincial Premium	3.25% per annum

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Health care cost trend rates (2009 disclosure and 2010 benefit cost)	<b>Grandfathered Traditional Program</b>		
	Semi-Private Hospital	4.75% per annum	
	Prescription Drugs	9.00% per annum in 2008 grading down to 5.00% per annum in and after 2028	
	Other Health Care	4.75% per annum	
	Vision Care	0.00% per annum	
	Dental Care	4.75% per annum	
	Provincial Premium (non-BC)	3.25% per annum	
	BC Provincial Premium	6.0% per annum for 3 years, then 4.5% per annum thereafter	
	<b>Non-Grandfathered Traditional Program</b>		
	Catastrophic Plan	8.00% per annum in 2008 grading down to 5.00% per annum in and after 2028	
	Healthcare Spending Account Allocation	No increases	
	Provincial Premium (non-BC)	3.25% per annum	
	BC Provincial Premium	6.0% per annum for 3 years, then 4.5% per annum thereafter	
	<b>Balanced Program and SARP</b>		
	Healthcare Spending Account Allocation	No increases	
	Provincial Premium (non-BC)	3.25% per annum	
	BC Provincial Premium	6.0% per annum for 3 years, then 4.5% per annum thereafter	
	<hr/>		
Mortality (2008 disclosure and 2009 benefit cost)	RP2000 mortality table projected to 2017.		
	Rates at sample ages are shown below (per 1,000 members):		
	Age	Male	Female
	20	0.25	0.15
	30	0.41	0.22
	40	0.94	0.55
	50	1.57	1.25
	60	5.13	4.64
	70	17.18	15.37
	80	54.26	40.72
	90	171.33	125.13
Mortality (2009 disclosure and 2010 benefit cost)	RP2000 mortality table fully generational.		

*Withdrawal*

We have made an allowance for future terminations of employment before retirement for reasons other than death or retirement. Sample termination rates, by employee group, are as follows:

Age	Non-Union	Union
20	12.92%	9.18%
25	10.86%	9.18%
30	9.03%	7.49%
35	7.34%	5.16%
40	5.66%	3.70%
45	3.97%	2.55%
50	3.03%	1.47%
55	1.14%	0.43%

The termination scale ends at the full eligibility date.

*Retirement rates***Retirement Scale****Traditional (Grandfathered and Non-Grandfathered) Programs****Non-Union (Part I)**

- 5% per year from Company-Initiated Retirement Age<sup>5</sup> to Employee-Initiated Retirement Age<sup>6</sup>
- 40% at Employee-Initiated Retirement Age
- 15% per year from Employee-Initiated Retirement Age to Age 65
- 100% at Age 65

**Non-Union (Part II)**

- 5% per year from Age 55 to Age 59
- 20% per year from Age 60 to Age 64
- 100% at Age 65

**Union**

- 15% per year from Company-Initiated Retirement Age<sup>3</sup> to Employee-Initiated Retirement Age<sup>4</sup>
- 40% at Employee-Initiated Retirement Age
- 15% per year from Employee-Initiated Retirement Age to Age 65
- 100% at Age 65

**Balanced Program****Non-Union Plan Only**

- Same as Non-Union Plan for Part II members

**SARP Program****Union Plan Only**

- Same as Union Plan for Traditional Programs

<sup>5</sup> Company – Initiated Retirement Age refers to the earlier of: Age 55 with 25 years of pensionable service, and 30 years of pensionable service.

<sup>6</sup> Employee-Initiated Retirement Age refers to the earlier of: Age 65, age 60 with age plus pensionable service equal to 80 or more, and age 55 with age plus pensionable service equal to 85 or more, or age 55 with 20 years of pensionable service for female members, in service with Nortel Networks on May 31, 1973.

<i>Disability rates</i>	We have made no explicit allowance for the possibility that plan members become disabled before retirement.	
	Members currently in receipt of LTD benefits are assumed to retire at age 65.	
<i>Marital status</i>	<ul style="list-style-type: none"> <li>▪ For active employees, 80% are assumed to be married at retirement with males assumed to be 2 years older than their female spouses.</li> <li>▪ For current retirees, actual spousal information was used</li> </ul>	
<i>Age 65 2008 per covered person claim costs (before administration and taxes) (2008 disclosure and 2009 benefit cost)</i>	<b>Grandfathered Traditional Program</b> Semi-private Hospital \$41 Prescription Drugs <sup>7</sup> 640 Other Medical 144 Vision Care 24 Dental Care 235 <hr/> <b>Total \$1,084</b> <b>Non-Grandfathered Traditional Program</b> Catastrophic Medical Program <sup>8</sup> \$987 Healthcare Spending Account \$50 per year of service from age 40 to retirement age  <b>Balanced Program</b> Healthcare Spending Account \$50 per year of service from age 40 to retirement age  <b>SARP</b> Healthcare Spending Account \$50 per year of service from age 40 to retirement age	

<sup>7</sup> Drug costs are reduced from age 65 due to coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.

<sup>8</sup> All drug costs can be claimed under this plan. The costs for drug benefits are reduced from age 65 due to the coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.

Age 65 2010 per covered person claim costs (including administration and taxes) (2009 disclosure and 2010 benefit cost)	<b>Grandfathered Traditional Program</b>							
	Semi-private Hospital	\$26						
	Prescription Drugs <sup>9</sup>	765						
	Other Medical	136						
	Vision Care	19						
	Dental Care	263						
	<b>Total</b>	<b>\$1,209</b>						
	<b>Non-Grandfathered Traditional Program</b>							
	Catastrophic Medical Program <sup>10</sup>	\$985						
	Healthcare Spending Account	\$50 <sup>11</sup> per year of service from age 40 to retirement age						
<b>Balanced Program</b>								
Healthcare Spending Account	\$50 <sup>11</sup> per year of service from age 40 to retirement age							
<b>SARP Program</b>								
Healthcare Spending Account	\$50 <sup>11</sup> per year of service from age 40 to retirement age							
Post retirement increases in utilization by age	<b>Cost at Age</b>							
		<b>55</b>	<b>60</b>	<b>65</b>	<b>70</b>	<b>75</b>	<b>80</b>	<b>85</b>
	Supplementary Hospital	45%	64%	100%	161%	253%	388%	562%
	Prescription Drugs <sup>12</sup>	75%	88%	100%	109%	113%	114%	113%
	Other Medical	106%	103%	100%	102%	110%	121%	135%
	Vision Care	106%	103%	100%	97%	95%	92%	89%
	Dental Care	107%	104%	100%	95%	90%	83%	74%
	Catastrophic Medical Plan	75%	88%	100%	109%	113%	114%	113%
	Healthcare Spending Account	100%	100%	100%	100%	100%	100%	100%
	Prescription drug offset assumption at age 65 and after (2008 disclosure and 2009 benefit cost)	Alberta: 55% of claims						
Ontario: 65% of claims								
Quebec: 100% of claims (assume 100% of Quebec retirees elected RAMQ at age 65)								
Others: 0%								

<sup>9</sup> Drug costs are reduced from age 65 due to coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.

<sup>10</sup> All drug costs can be claimed under this plan. The costs for drug benefits are reduced from age 65 due to the coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.

<sup>11</sup> Amount decreases to 50% upon members death and continues for surviving spouses.

<sup>12</sup> Drug costs are reduced from age 65 due to coverage from the provincial government drug plans. The assumptions shown here are before the assumed offset amount.



<i>Prescription drug offset assumption at age 65 and after (2009 disclosure and 2010 benefit cost)</i>	Alberta: 55% of claims Ontario: 65% of claims Quebec: 50% of claims (assume 100% of Quebec retirees elected RAMQ at age 65) Others: 0%		
<i>Adjustment factors for the Catastrophic Medical Plan deductible and lifetime maximum</i>	The liabilities for the catastrophic medical coverage under the Non-Grandfathered Traditional Program were initially calculated based on the above claims cost, aging, trend and drug offset assumptions. The resulting obligations were then reduced by multiplying by the following factors by age at the valuation date to reflect the expected impact of the plan's lifetime deductible (\$7,500 per family) and lifetime maximum (\$500,000 per family) provisions. It has been assumed that the current flat lifetime deductible and maximum amounts do not increase in the future.		
	<b>Age Group</b>	<b>Adjustment Factors</b>	
	Less than 30	0.96	
	30 to 34	0.95	
	35 to 39	0.93	
	40 to 44	0.92	
	45 to 49	0.89	
	50 to 54	0.87	
	55 to 59	0.82	
	60+	0.89	
<i>Provincial government plans (2008 disclosure and 2009 benefit cost)</i>	As of April 1, 2008 the retiree premium for the government plans are as follows:		
	<b>Province</b>	<b>Single</b>	<b>Family</b>
	RAMQ Premium (Nortel reimbursement)	\$175	\$350
	British Columbia	\$54	\$96
<i>Provincial government plans (2009 disclosure and 2010 benefit cost)</i>	As of January 1, 2010 the retiree premium for the government plans are as follows:		
	<b>Province</b>	<b>Single</b>	<b>Family</b>
	RAMQ Premium (Nortel reimbursement)	\$175	\$350
	British Columbia	\$57	\$102
<i>Administrative expenses</i>	Medical	4.30% of claims	
	Dental	4.30% of claims	
	Life Insurance	1.50% of claims	
	STB	2.30% of claims	

<i>Taxes</i>	Provisions for the following provincial premium and sales taxes have been made:	
	<b><i>Provincial Sales Taxes:</i></b>	
	Quebec	9.00% of claims and expenses
	Ontario	8.00% of claims and expenses
	Other Provinces	Nil
	<b><i>Premium Taxes:</i></b>	
	Quebec	2.35% of claims and expenses
	Ontario	2.00% of claims and expenses
	Other Provinces	2.00% to 4.00% of claims and expenses for Life Insurance and STB, and for Medical/Dental depending on the province as follows:
		<ul style="list-style-type: none"> <li>▪ 2.00%: Alberta, British Columbia, Manitoba, New Brunswick, Saskatchewan</li> <li>▪ 3.00%: Nova Scotia</li> <li>▪ 3.50% Prince Edward Island</li> <li>▪ 4.00%: Newfoundland and Labrador</li> </ul>
	<b><i>Goods and Services Tax:</i></b>	
	All Provinces	5.00% of expenses
<i>Attribution period</i>	As described in the Summary of Non-Pension Post Retirement Benefit Plan Provisions.	

## Claims Cost Development

### ***Grandfathered Traditional Plan***

The 2010 per covered person claim costs at age 65 are based on actual claims experience for Nortel's retired members or surviving spouses for the calendar years, 2007 to 2009. The claims cost assumptions include administration and taxes. Claim costs were trended to the mid-point (July 1, 2010) of the current valuation period. Refer to the schedule for the development of the 2008 claim costs on the following pages.

### ***Catastrophic Plan***

To determine the per capita costs of age 65 for the catastrophic plan, we relied on the data used for the Grandfathered Traditional Plan and applied certain relative value adjustments to develop the costs for the catastrophic plan.

## Grandfathered Traditional Plan

	2009 Total	2008 Total	2007 Total
<b>Actual Nortel retirees' paid claims (before administration costs and taxes)</b>			
Hospital	\$953,756	\$1,080,673	\$1,101,260
Drug	6,736,069	6,981,234	6,646,711
Vision care	321,555	287,525	290,146
Other medical	2,355,119	2,530,114	1,862,758
Dental	3,773,716	3,547,802	3,505,179
<b>Total</b>	<b>\$14,140,215</b>	<b>\$14,427,347</b>	<b>\$13,406,054</b>
<b>Number of Nortel retirees, spouses and surviving spouses</b>			
▪ Eligible for medical benefits	18,985	18,916	18,803
▪ Eligible for dental benefits	18,985	18,916	18,803
<b>Per covered member costs</b>			
Hospital	\$50.24	\$57.13	\$58.57
Drug	472.94	492.47	464.71
Vision care	16.94	15.20	15.43
Other medical	124.05	133.76	99.07
Dental	198.77	187.56	186.42
<b>Total</b>	<b>\$862.94</b>	<b>\$886.11</b>	<b>\$824.19</b>
<b>Trend to July 01, 2009</b>			
Hospital	1.00	1.05	1.10
Drug	1.00	1.08	1.17
Vision care	1.00	1.00	1.00
Other medical	1.00	1.05	1.10
Dental	1.00	1.05	1.10
<b>2009 per covered member costs</b>			
Hospital	\$50.24	\$59.84	\$64.26
Drug	472.94	531.87	542.03
Vision care	16.94	15.20	15.43
Other medical	124.05	140.11	108.70
Dental	198.77	196.46	204.55
<b>Total</b>	<b>\$862.94</b>	<b>\$943.48</b>	<b>\$934.98</b>
<b>Weighting</b>	<b>50%</b>	<b>33%</b>	<b>17%</b>
<b>Trend to July 01, 2010</b>			
Hospital	1.048		
Drug	1.080		
Vision care	1.000		
Other medical	1.048		
Dental	1.048		
<b>2010 per covered member costs</b>			
Hospital	\$58.43		
Drug	544.43		
Vision care	16.11		
Other medical	132.87		
Dental	208.42		
<b>Total</b>	<b>\$960.25</b>		

**Nortel Networks Corporation**

Report on Non-Pension Post Retirement Benefit Cost and Disclosure  
for Fiscal 2009 under CICA 3461 and in accordance with US Accounting Standards

**Adjustment factors to convert 2010 per covered member costs  
into age 65 per covered member costs**

Hospital	0.3937
Drug	1.2288
Vision care	1.0554
Other medical	0.8956
Dental	1.1036

**Drug offset assumption at age 65** **0%**

**Per covered member age 65 claims costs (2010 per covered member costs x adjustment factors)**

Hospital	\$23.00
Drug - incorporating 0% drug offset	669.00
Vision care	17.00
Other medical	119.00
Dental	230.00
<b>Total</b>	<b>\$1,058.00</b>

**Administration costs and taxes**

▪ Administration costs for medical	4.52%	of claims
▪ Premium and sales taxes	9.50%	of claims
<b>Total administration costs and taxes</b>	<b>14.44%</b>	<b>of claims</b>

**Administration costs and taxes**

▪ Administration costs for dental	4.52%	of claims
▪ Premium and sales taxes	9.50%	of claims
<b>Total administration costs and taxes</b>	<b>14.44%</b>	<b>of claims</b>

**Per covered member age 65 claims costs with administration costs and taxes**

Hospital	\$26.32
Drug - incorporating 0% drug offset	765.63
Vision care	19.46
Other medical	136.19
Dental	263.22
<b>Total</b>	<b>\$1,210.82</b>

**Benefit adjustment factors due to differences in plan provisions**

Hospital	1.00
Drug	1.00
Vision care	1.00
Other medical	1.00
Dental	1.00

**Nortel 2010 per covered member age 65 claims costs with  
administration costs and taxes**

	<b>Total</b>
Hospital	\$26.32
Drug - incorporating 0% drug offset	765.63
Vision care	19.46
Other medical	136.19
Dental	263.22
<b>Total</b>	<b>\$1,210.82</b>

Appendix D

## **Summary of Plan Provisions**

### **Future Non-Union Retirees**

On June 2, 2006 Nortel announced changes to the post retirement benefits provided to non-union employees. Effective January 1, 2008, non-union employees who were not at least 50 years of age with 5 years of service on July 1, 2006:

- would be provided with medical and dental benefits on an “access-only” basis (100% retiree paid); and
- a flat \$10,000 life benefit.

### **Current Retired Non-Union Members**

May be covered by one of the various plans outlined on the following pages depending on their compensation plan and depending on their retirement date.

### **Future and Current Union Retirees**

Future Union retirees and current union retirees are covered under the Traditional Grandfathered plan or SARP plan as shown on the following pages. (There are a few plan differences for the union members covered under the Traditional plan than the non-union members covered under this plan.)

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	<b>Grandfathered Traditional Program</b>	<b>Non-Grandfathered Traditional Program</b>	<b>Non-Grandfathered Traditional, Balanced Program and SARP</b>
<i>Eligibility</i>	<ul style="list-style-type: none"> <li>Age 50 or have at least 28 years of service as at April 30, 2000</li> <li>Part I: Employee must retire directly from active status or Long Term Disability</li> <li>Part II: Employee must be at least age 55 with 5 years of service at retirement</li> </ul>	<ul style="list-style-type: none"> <li>If employee does not qualify for the Grandfathered Traditional program</li> <li>Part I: Employee must retire directly from active status or Long Term Disability</li> <li>Part II: Employee must be at least age 55 with 10 years of service at retirement</li> <li>Part II: Employee must be at least age 55 with 10 years of service at retirement</li> </ul>	<ul style="list-style-type: none"> <li>Part I: Employee must retire directly from active status or Long Term Disability</li> <li>Part II: Balanced Program &amp; SARP: employee must be at least age 55 with 10 years of service at retirement</li> <li>Investor program for Quebec retirees under age 65 who retire from active status</li> </ul>
<i>Medical and Dental Coverage</i>			
<i>Deductible</i>	<ul style="list-style-type: none"> <li>\$25/50 (single/family) per calendar year</li> <li>Applies to expenses incurred under either or both health and dental plans</li> </ul>	<ul style="list-style-type: none"> <li>\$7,500 lifetime out-of-pocket deductible per family</li> <li>Applies to certain medical benefits only</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<i>Overall Plan Maximum</i>	<ul style="list-style-type: none"> <li>Unlimited</li> </ul>	<ul style="list-style-type: none"> <li>\$500,000 lifetime maximum per family</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<i>Benefit Amount</i>	<ul style="list-style-type: none"> <li>Out-of-pocket maximum of \$1,000 per calendar year per family</li> </ul>	<ul style="list-style-type: none"> <li>Reimburses 100% (from catastrophic plan) of eligible medical expenses after the lifetime deductible is satisfied</li> </ul>	<ul style="list-style-type: none"> <li>Annual company paid allocation is \$50 per year of service from age 40</li> </ul>
<i>Spousal &amp; Dependent Coverage</i>	<ul style="list-style-type: none"> <li>Yes</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> </ul>	<ul style="list-style-type: none"> <li>Annual company paid allocation reduced by half after the death of the retiree</li> </ul>
<i>Cost Sharing</i>	<ul style="list-style-type: none"> <li>100% Nortel-paid if employee at least age 50 with 5 years service at July 1, 2006, otherwise, 100% retiree-paid</li> </ul>	<ul style="list-style-type: none"> <li>100% Nortel-paid if employee at least age 50 with 5 years service at July 1, 2006, otherwise, 100% retiree-paid</li> </ul>	<ul style="list-style-type: none"> <li>100% Nortel-paid if employee at least age 50 with 5 years service at July 1, 2006, otherwise, 100% retiree-paid</li> </ul>
<i>Medical</i>			
<i>Drug (Non-Quebec)</i>	<ul style="list-style-type: none"> <li>Prescription drugs covered at 80%</li> </ul>	<ul style="list-style-type: none"> <li>Prescription drugs, generic substitution where possible</li> <li>\$7 dispensing fee maximum</li> </ul>	<ul style="list-style-type: none"> <li>Not covered</li> </ul>

**Nortel Networks Corporation**

Report on Non-Pension Post Retirement Benefit Cost and Disclosure  
for Fiscal 2009 under CICA 3461 and in accordance with US Accounting Standards

	Grandfathered Traditional Program	Non-Grandfathered Traditional Program	Non-Grandfathered Traditional, Balanced Program and SARP
		Catastrophic Program	Healthcare Spending Account
<i>Drug (Quebec) – Retirees 65 and over: 2 Choices</i>	<p>Provincial RQ Drug Plan</p> <ul style="list-style-type: none"> <li>Covers 68% up to \$954 out of pocket/yr</li> <li>100% of expenses in excess of \$954</li> <li>Monthly deductible \$14.95/month</li> <li>Nortel pays premiums (taxable benefit) to a maximum of \$175/yr</li> </ul> <p>NN RAMQ Equivalent Drug Plan</p> <ul style="list-style-type: none"> <li>80% eligible on RAMQ formulary up to \$954 out of pocket a year and 100% of expenses in excess of \$954; \$25/\$50 deductible</li> <li>Retiree pays premiums</li> </ul>	<p>Provincial RQ Drug Plan</p> <ul style="list-style-type: none"> <li>Covers 68% up to \$954 out of pocket/yr</li> <li>100% of expenses in excess of \$954</li> <li>Monthly deductible \$14.95/month</li> <li>Nortel pays premiums (taxable benefit) to a maximum of \$175/yr</li> </ul> <p>NN RAMQ Equivalent Drug Plan</p> <ul style="list-style-type: none"> <li>80% eligible on RAMQ formulary up to \$954 out of pocket a year and 100% of expenses in excess of \$954; \$25/\$50 deductible</li> <li>Retiree pays premiums</li> </ul>	<p>Provincial RQ Drug Plan</p> <ul style="list-style-type: none"> <li>Covers 68% up to \$954 out of pocket/yr</li> <li>100% of expenses in excess of \$954</li> <li>Monthly deductible \$14.95/month</li> <li>Nortel pays premiums (taxable benefit) to a maximum of \$175/yr</li> </ul> <p>NN RAMQ Equivalent Drug Plan</p> <ul style="list-style-type: none"> <li>80% eligible on RAMQ formulary up to \$954 out of pocket a year and 100% of expenses in excess of \$954</li> <li>Retiree pays premiums</li> </ul>
<i>Hospital</i>	<ul style="list-style-type: none"> <li>100% of the first \$50 per day and 50% of the remaining cost</li> <li>Difference between ward and private room coverage</li> </ul>	<ul style="list-style-type: none"> <li>Retiree pays premiums</li> <li>Not covered</li> </ul>	<ul style="list-style-type: none"> <li>Not covered</li> </ul>
<i>Private Duty Nursing</i>	<ul style="list-style-type: none"> <li>80% to a maximum of \$12,500 in period of illness/injury</li> </ul>	<ul style="list-style-type: none"> <li>100% subject to deductible and overall plan maximum</li> </ul>	<ul style="list-style-type: none"> <li>Not covered</li> </ul>
<i>Vision Care</i>	<p>Non-Union</p> <ul style="list-style-type: none"> <li>50% up to a maximum of \$100/2yrs /per person, and \$200/2yrs for severe eye conditions</li> </ul> <p>CAW and COEU</p> <ul style="list-style-type: none"> <li>Maximum of \$100 /2yrs /per person, and \$200/2yrs for severe eye conditions</li> </ul>	<ul style="list-style-type: none"> <li>Not covered</li> </ul>	<ul style="list-style-type: none"> <li>Not covered</li> </ul>
<i>Hearing Aid</i>	<ul style="list-style-type: none"> <li>50% to a maximum of \$200 /2yrs/ per person</li> </ul>	<ul style="list-style-type: none"> <li>Not covered</li> </ul>	<ul style="list-style-type: none"> <li>Not covered</li> </ul>
<i>Provincial Health Insurance Premium</i>	<ul style="list-style-type: none"> <li>Nortel Networks pays 100% of the provincial health insurance premiums for retirees in British Columbia.</li> </ul>	<ul style="list-style-type: none"> <li>Nortel Networks pays 100% of the provincial health insurance premiums for retirees in British Columbia.</li> </ul>	<ul style="list-style-type: none"> <li>Nortel Networks pays 100% of the provincial health insurance premiums for retirees in British Columbia.</li> </ul>

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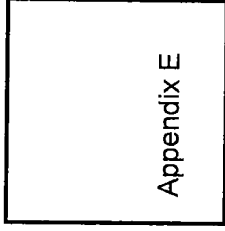
	Grandfathered Traditional Program	Non-Grandfathered Traditional Program	Non-Grandfathered Traditional, Balanced Program and SARP
<i>Other Medical</i>	<ul style="list-style-type: none"> <li>▪ Includes: <ul style="list-style-type: none"> <li>80% co-insurance: <ul style="list-style-type: none"> <li>- Out of province medical coverage</li> <li>- Medical equipment and supplies</li> <li>- Ambulance services</li> <li>- X-rays</li> <li>- Accidental dental</li> <li>- Paramedical services (\$250 maximum per person per calendar year)</li> <li>- Orthopaedic shoes</li> <li>- Physiotherapist (no maximum)</li> <li>- Other parameds (\$250 maximum)</li> </ul> </li> <li>50% co-insurance: <ul style="list-style-type: none"> <li>- Hearing aids</li> <li>- Nursing Homes</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Includes: <ul style="list-style-type: none"> <li>- Medical equipment and supplies</li> <li>- Ambulance services</li> <li>- X-rays</li> <li>- Selected list of paramedical services (physiotherapist, chiropractor, speech therapist, osteopath) \$250 maximum per practitioner per calendar year</li> <li>- 100% subject to deductible and overall plan maximum</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Not covered</li> </ul>
<i>Dental</i>	<ul style="list-style-type: none"> <li>Coinsurance of: <ul style="list-style-type: none"> <li>80%</li> <li>50%</li> <li>50%</li> <li>None</li> </ul> </li> <li>▪ Periodontic / Endodontic: \$1,000 per person in any 3 years</li> <li>▪ Major: \$1,000 per person per calendar year</li> </ul>	<ul style="list-style-type: none"> <li>Not Covered</li> </ul>	<ul style="list-style-type: none"> <li>Not covered</li> </ul>



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	<b>Grandfathered Traditional Program</b>	<b>Non-Grandfathered Traditional Program</b>	<b>Non-Grandfathered Traditional, Balanced Program and SARP</b>
		<b>Catastrophic Program</b>	<b>Healthcare Spending Account</b>
<i>Life Insurance</i>		<u>Non Grandfathered Traditional</u>	<u>Balanced</u>
	<ul style="list-style-type: none"> <li>▪ Equal to pre-retirement basic life coverage</li> <li>▪ Non-union employees receive \$10,000 if not at least age 50 with 5 years service on July 1, 2006</li> <li>▪ Reducing by 5% on each retirement anniversary</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$35,000 in company paid coverage or \$10,000 death benefit if at least age 50 with 5 years service at July 1, 2006, otherwise, \$10,000</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$35,000 in company paid coverage or \$10,000 death benefit if at least age 50 with 5 years service at July 1, 2006, otherwise, \$10,000</li> </ul>
	<b>Non-Union</b>		<b>SARP</b>
	<u>Non-Union Pre '91 retiree</u>		<ul style="list-style-type: none"> <li>▪ \$30,000 in company paid coverage or \$10,000 death benefit for CAW retirees</li> </ul>
	<ul style="list-style-type: none"> <li>- Reduction stops when coverage is 75% of pre-retirement basic life coverage</li> </ul>		<ul style="list-style-type: none"> <li>▪ \$35,000 in company paid coverage or \$10,000 death benefit for COEU retirees</li> </ul>
	<u>Non-Union Post '91 retiree</u>		
	<ul style="list-style-type: none"> <li>- Reduction stops when coverage is 25% of pre-retirement basic life coverage</li> <li>- Minimum coverage of \$20,000</li> </ul>		
	<u>Exceptions to the Above:</u>		
	<ul style="list-style-type: none"> <li>▪ For retirees on private payroll whose band was 12 and above, and for NEDCO retirees: the initial amount of insurance remains level after retirement</li> </ul>		
	<b>Union</b>		
	<u>Union Pre '91 retiree</u>		
	<ul style="list-style-type: none"> <li>- Reduction stops when coverage is 75% of pre-retirement basic life coverage</li> </ul>		
	<u>Union Post '91 retiree</u>		
	<ul style="list-style-type: none"> <li>▪ Reduction stops when coverage is 50% of pre-retirement basic life coverage</li> <li>▪ Minimum coverage of \$10,000 except for CAW who have a minimum coverage of \$25,000</li> </ul>		



## **Additional Information**

### ***Disclosure Information by Entity***

# **Nortel Networks Corporation**

## Report on Non-Pension Post Retirement Benefit Cost and Disclosure for Fiscal 2009 under CICA 3461 and in accordance with US Accounting Standards

### Change in accumulated post retirement benefit obligation - end of prior period

Service cost	83,409	223,125	316,534	12,431	23,460	35,891
Interest cost	119	284	403	77	109	186
Employee contributions	6,607	15,695	22,303	891	1,659	2,550
Plan amendments	0	0	0	0	0	0
Benefits paid	(8,295)	(19,443)	(27,738)	(807)	(26)	(833)
Net transfer in (out)	0	0	0	0	0	0
Acquisitions (divestitures)	0	0	0	0	0	0
Increase (decrease) in obligation due to curtailment	(1,360)	(2,113)	(3,473)	(979)	(1,383)	(2,362)
Obligation being settled	0	0	0	0	0	0
Special termination benefits	0	0	0	0	0	0
Actuarial loss (gain)	18,050	13,225	31,276	1,321	(7,228)	(5,907)
Accumulated post retirement benefit obligation - end	108,530	230,775	339,305	12,934	16,591	29,525

### Change in plan assets

Fair value of plan assets - end of prior period	0	0	0	0	0	0
Actual return on plan assets	0	0	0	0	0	0
Employer contributions	8,295	19,443	27,738	807	26	833
Benefits paid	(8,295)	(19,443)	(27,738)	(807)	(26)	(833)
Surplus paid out to employer	0	0	0	0	0	0
Settlement payments	0	0	0	0	0	0
Net transfer in (out)	0	0	0	0	0	0
Acquisitions (divestitures)	0	0	0	0	0	0
Actual plan expenses	0	0	0	0	0	0
Fair value of plan assets - end	0	0	0	0	0	0

### Reconciliation of Funded Status - CICA 3461

Benefit obligation - end	108,530	230,775	339,305	12,934	16,591	29,525
Fair value of plan assets - end	0	0	0	0	0	0
Funded status - surplus (deficit)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)
Employer contributions after measurement date	0	0	0	0	0	0
Unamortized Transitional Obligation	0	0	0	0	0	0
Unamortized Past Service Cost	(882)	(6,286)	(7,178)	(789)	(5,539)	(6,328)
Unamortized Net Actuarial Loss (Gain)	(2,285)	(67,489)	(69,785)	(2,973)	(17,101)	(20,074)
Accrued Benefit Asset/(Liability)	(111,708)	(304,560)	(416,268)	(16,696)	(39,231)	(55,927)

### Reconciliation of funded status - FAS 158

Benefit obligation - end	108,530	230,775	339,305	12,934	16,591	29,525
Fair value of plan assets - end	0	0	0	0	0	0
Funded status - surplus (deficit)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)
Employer contributions after measurement date	0	0	0	0	0	0
Net amtl. recognized in statement of financial position (after FAS 158)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)

### Amounts recognized in the statement of financial position consist of:

Noncurrent assets	0	0	0	0	0	0
Current (liabilities)	(8,539)	(17,750)	(26,388)	(868)	(1,129)	(1,988)
Noncurrent (liabilities)	(99,894)	(213,025)	(312,919)	(12,065)	(15,462)	(27,527)
Net amount recognized in statement of financial position (after FAS 158)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)

### Reconciliation of amounts not yet recognized in net periodic benefit cost and included in accumulated other comprehensive income (before tax):

Transition (obligation) asset	0	0	0	0	0	0
Prior service (cost) credit	882	6,286	7,178	789	5,539	6,328
Net actuarial (loss) gain	2,285	67,489	69,785	2,973	17,101	20,074
Total recognized in AOCI at year-end	3,176	74,781	76,963	3,762	22,640	26,402
Cumulative employer contributions in excess of net periodic benefit cost	(111,708)	(304,560)	(416,268)	(16,696)	(39,231)	(55,927)
Net amount recognized in statement of financial position	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)

	Nortel Networks Life	Nortel Networks Medical	Nortel Networks Total	Nortel Technology Life	Nortel Technology Medical	Nortel Technology Total	Grand Total
Change in accumulated post retirement benefit obligation - end of prior period	83,409	223,125	316,534	12,431	23,460	35,891	352,425
Service cost	119	284	403	77	109	186	589
Employee contributions	6,607	15,695	22,303	891	1,659	2,550	24,853
Plan amendments	0	0	0	0	0	0	0
Benefits paid	(8,295)	(19,443)	(27,738)	(807)	(26)	(833)	(28,571)
Net transfer in (out)	0	0	0	0	0	0	0
Acquisitions (divestitures)	0	0	0	0	0	0	0
Increase (decrease) in obligation due to curtailment	(1,360)	(2,113)	(3,473)	(979)	(1,383)	(2,362)	(5,835)
Obligation being settled	0	0	0	0	0	0	0
Special termination benefits	0	0	0	0	0	0	0
Actuarial loss (gain)	18,050	13,225	31,276	1,321	(7,228)	(5,907)	25,369
Accumulated post retirement benefit obligation - end	108,530	230,775	339,305	12,934	16,591	29,525	368,830
Change in plan assets	0	0	0	0	0	0	0
Fair value of plan assets - end of prior period	0	0	0	0	0	0	0
Actual return on plan assets	0	0	0	0	0	0	0
Employer contributions	8,295	19,443	27,738	807	26	833	28,571
Benefits paid	(8,295)	(19,443)	(27,738)	(807)	(26)	(833)	(28,571)
Surplus paid out to employer	0	0	0	0	0	0	0
Settlement payments	0	0	0	0	0	0	0
Net transfer in (out)	0	0	0	0	0	0	0
Acquisitions (divestitures)	0	0	0	0	0	0	0
Actual plan expenses	0	0	0	0	0	0	0
Fair value of plan assets - end	0	0	0	0	0	0	0
Reconciliation of Funded Status - CICA 3461	108,530	230,775	339,305	12,934	16,591	29,525	368,830
Benefit obligation - end	108,530	230,775	339,305	12,934	16,591	29,525	368,830
Fair value of plan assets - end	0	0	0	0	0	0	0
Funded status - surplus (deficit)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)
Employer contributions after measurement date	0	0	0	0	0	0	0
Unamortized Transitional Obligation	0	0	0	0	0	0	0
Unamortized Past Service Cost	(882)	(6,286)	(7,178)	(789)	(5,539)	(6,328)	(13,506)
Unamortized Net Actuarial Loss (Gain)	(2,285)	(67,489)	(69,785)	(2,973)	(17,101)	(20,074)	(69,859)
Accrued Benefit Asset/(Liability)	(111,708)	(304,560)	(416,268)	(16,696)	(39,231)	(55,927)	(472,185)
Reconciliation of funded status - FAS 158	108,530	230,775	339,305	12,934	16,591	29,525	368,830
Benefit obligation - end	108,530	230,775	339,305	12,934	16,591	29,525	368,830
Fair value of plan assets - end	0	0	0	0	0	0	0
Funded status - surplus (deficit)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)
Employer contributions after measurement date	0	0	0	0	0	0	0
Net amtl. recognized in statement of financial position (after FAS 158)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)
Amounts recognized in the statement of financial position consist of:	0	0	0	0	0	0	0
Noncurrent assets	0	0	0	0	0	0	0
Current (liabilities)	(8,539)	(17,750)	(26,388)	(868)	(1,129)	(1,988)	(28,384)
Noncurrent (liabilities)	(99,894)	(213,025)	(312,919)	(12,065)	(15,462)	(27,527)	(340,446)
Net amount recognized in statement of financial position (after FAS 158)	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)
Reconciliation of amounts not yet recognized in net periodic benefit cost and included in accumulated other comprehensive income (before tax):	0	0	0	0	0	0	0
Transition (obligation) asset	0	0	0	0	0	0	0
Prior service (cost) credit	882	6,286	7,178	789	5,539	6,328	13,506
Net actuarial (loss) gain	2,285	67,489	69,785	2,973	17,101	20,074	89,859
Total recognized in AOCI at year-end	3,176	74,781	76,963	3,762	22,640	26,402	103,365
Cumulative employer contributions in excess of net periodic benefit cost	(111,708)	(304,560)	(416,268)	(16,696)	(39,231)	(55,927)	(472,185)
Net amount recognized in statement of financial position	(108,530)	(230,775)	(339,305)	(12,934)	(16,591)	(29,525)	(368,830)

# **Nortel Networks Corporation**

## **Report on Non-Pension Post Retirement Benefit Cost and Disclosure for Fiscal 2009 under CICA 3461 and in accordance with US Accounting Standards**

Components of net periodic post retirement benefit cost - CICA	Nortel Networks		Nortel Networks		Nortel Technology		Grand Total
	Life	Medical	Total	Life	Medical	Total	
Service cost	119	284	403	77	109	186	589
Interest cost	6,607	15,696	22,303	891	1,659	2,550	24,853
Actual return on plan assets	0	0	0	0	0	0	0
Actuarial (gain) loss	18,050	13,226	31,276	1,321	(7,228)	(5,907)	25,369
Plan Amendments	0	0	0	0	0	0	0
Curialment loss (gain)	(1,360)	(2,113)	(3,473)	(979)	(1,383)	(2,362)	(6,835)
Cost arising in the period	23,416	27,093	50,509	1,310	(6,843)	(5,533)	44,976
Differences between cost arising in the period and costs recognized in the period in respect of:							
- Return on Assets	0	0	0	0	0	0	0
- Actuarial (gain) loss	(18,603)	(21,993)	(40,596)	(1,439)	6,168	4,729	(35,867)
- Plan amendments	(890)	(5,746)	(6,636)	(647)	(5,027)	(5,674)	(12,510)
- Transitional obligation (asset)	0	0	0	0	0	0	0
Benefit cost recognized	3,923	(646)	3,277	(976)	(5,702)	(6,678)	(3,401)
<b>Components of net periodic post retirement benefit cost - FAS</b>							
Service cost	119	284	403	77	109	186	589
Interest cost	6,607	15,696	22,303	891	1,659	2,550	24,853
Expected return on plan assets	0	0	0	0	0	0	0
Amortization of transition obligation (asset)	0	0	0	0	0	0	0
Amortization of prior service cost (credit)	(239)	(1,128)	(1,367)	(266)	(987)	(1,253)	(2,600)
Amortization of net actuarial loss (gain)	(553)	(8,767)	(9,320)	(116)	(1,060)	(1,176)	(10,496)
Curialment - Immediate recognition of PSC	(651)	(4,618)	(5,269)	(91)	(4,080)	(4,171)	(9,910)
Curialment - Income	(1,360)	(2,113)	(3,473)	(979)	(1,383)	(2,362)	(6,835)
Settlement loss (gain)	0	0	0	0	0	0	0
Special termination benefits	0	0	0	0	0	0	0
Net periodic post retirement benefit cost (income)	3,923	(646)	3,277	(976)	(5,702)	(6,678)	(3,401)
<b>Changes in plan assets and benefit obligations recognized in other comprehensive income</b>							
Prior service cost (credit) arising in period	0	0	0	0	0	0	0
Net actuarial loss (gain) arising in period	18,050	13,226	31,276	1,321	(7,228)	(5,907)	25,369
Total cost (credit) arising in period (a)	18,050	13,226	31,276	1,321	(7,228)	(5,907)	25,369
Minus:							
Amortization of transition obligation (asset)	0	0	0	0	0	0	0
Amortization of prior service cost (credit)	(890)	(5,746)	(6,636)	(647)	(5,027)	(5,674)	(12,510)
Amortization of net actuarial loss (gain)	(553)	(8,767)	(9,320)	(116)	(1,060)	(1,176)	(10,496)
Total amortization reclassified through net periodic benefit cost (b)	(1,443)	(14,513)	(15,956)	(763)	(6,087)	(6,850)	(23,008)
Equals							
Total cost (credit) recognized in other comprehensive income (a) - (b)	19,493	27,739	47,232	2,286	(1,141)	1,145	48,377
Total recognized in net periodic benefit cost and other comprehensive income	23,416	27,093	50,509	1,310	(6,843)	(5,533)	44,976
Estimated amounts that will be amortized from accumulated other comprehensive income over the next fiscal year	0	0	0	0	0	0	0
Transitional obligation (asset)	(129)	(676)	(807)	(138)	(589)	(727)	(1,534)
Prior service cost (credit)	0	(3,351)	(9,551)	0	(2,420)	(2,420)	(11,971)
Net actuarial loss (gain)	(129)	(10,229)	(10,358)	(136)	(3,009)	(3,147)	(13,505)
Total							
<b>Reconciliation of Accumulated Other Comprehensive Income (Loss) (AOCI)</b>							
AOCI at the end of the prior year	22,671	101,524	124,195	6,048	21,499	27,547	151,742
Other comprehensive income (loss)	(19,493)	(27,739)	(47,232)	(2,286)	1,141	(1,145)	(48,377)
AOCI at the end of the year	3,178	73,785	76,963	3,762	22,640	26,402	103,365
<b>Assumptions</b>							
At beginning of period							
Discount rate	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%
Rate of compensation increase (excluding merit + promotion scale)	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Health care inflation - Select	6.14%	6.14%	6.14%	6.14%	6.14%	6.14%	6.14%
Health care inflation - Ultimate	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%
Year ultimate rate reached	2028	2028	2028	2028	2028	2028	2028
At end of period							
Discount rate	6.09%	6.09%	6.09%	6.09%	6.09%	6.09%	6.09%
Rate of compensation increase (excluding merit + promotion scale)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Health care inflation - Select	6.11%	6.11%	6.11%	6.11%	6.11%	6.11%	6.11%
Health care inflation - Ultimate	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%	4.82%
Year ultimate rate reached	2028	2028	2028	2028	2028	2028	2028

**Mercer (Canada) Limited**

## Appendix F

**Employer Certification**

With respect to the Report on Non-Pension Post Retirement Benefit Cost and Disclosure for the Fiscal Year Ending December 31, 2009 under CICA Section 3461 and US accounting standards of Nortel's Non-Pension Post Retirement Benefit Plan, I hereby certify that, to the best of my knowledge and belief:

- The membership data supplied to the actuary provides a complete and accurate description of all persons who are entitled to benefits under the terms of the Plan for service up to the date of the valuation;
- A copy of the plan documents and of all amendments made up to December 31, 2009 were supplied to the actuary;
- All substantive commitments have been communicated to the actuary;
- Accounting policies adopted by the Company are those described in this report;
- The actuarial methods, amortization method and amortization periods to be used for the purposes of the valuation are those described in this report;
- Management's best-estimate assumptions for purposes of the valuation of the Plan and the extrapolation of the financial position of the Plan as of the fiscal year end December 31, 2009 are those described in this report; and
- All events subsequent to the valuation that may have an impact on the results of the valuation have been communicated to the actuary.

2/17/10  
\_\_\_\_\_  
Date  
Elizabeth Smith  
\_\_\_\_\_  
Signed  
Elizabeth Smith  
\_\_\_\_\_  
Name  
Director Benefits Accounting  
\_\_\_\_\_  
Title

## Appendix G

**Glossary of CICA 3461 and US Accounting Terms**

This section illustrates the main difference in terminology between CICA 3461 and US accounting terms.

<b>CICA 3461</b>	<b>US Accounting Standards</b>	<b>Definition</b>
Accrued benefit asset	Prepaid postretirement benefit cost	Cumulative employer contributions in excess of benefit cost.
Accrued benefit liability	Accrued postretirement benefit cost	The accumulation of benefit costs that have not yet been funded.
Accrued benefit obligation	Accumulated Postretirement Benefit Obligation (APBO)	The actuarial present value of all benefits expected to be received, attributed to employee service rendered before the valuation date.
Current service cost	Service cost	The actuarial present value of benefits attributed to services rendered by employees during a one year period.
Benefit cost	Net periodic postretirement benefit cost	The amount recognized in the employer's financial statements as the cost of a post retirement benefit plan for a period.
Past service cost	Prior service cost	The cost of benefit improvements attributable to plan participants' prior service pursuant to a plan amendment or a plan initiation that provides benefits in exchange for plan participants' prior service.
N/A	Accumulated Other Comprehensive Income	Balance sheet item reported on company's financial statement. As of the fiscal year-end, it is equal to the sum of the net actuarial gain (loss) plus prior service credit (cost) plus transition asset (obligation) not yet recognized in net income. The amount shown in this report is the before-tax amount and the amount shown on the company's financial statement will be after-tax.
N/A	Other Comprehensive Income	Except for certain amounts that are amortized, a company's net income does not include actuarial gains and losses during a year nor plan amendments during the year. These amounts are included in other comprehensive income. Other comprehensive income equals the change in accumulated other comprehensive income during the fiscal year. Other comprehensive income is shown on a company's books as an after-tax amount but is shown in this report before taxes.

# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

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Toronto, Ontario M5J 2S5  
416 868 2000

**Consulting. Outsourcing. Investments.**

Mercer (Canada) Limited

## **APPENDIX C – MERCER FEBRUARY 23 LETTER**



# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

**Ellen Whelan, FSA, FCIA**  
Principal

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23 February 2010

Lee K. Close  
Vice President, Transaction Advisory Services  
Ernst & Young Inc.  
100 Queen Street, Suite 1600  
Ottawa, ON K1P 1K1

## **Private & Confidential**

**Subject:** Nortel Canadian Post Employment Benefits Accounting in Accordance with CICA 3461 and US Accounting Standards for Fiscal 2009

Dear Lee:

As requested, this letter is to advise of the changes between the February 2, 2010 and February 23, 2010 letter for the post employment benefits.

The content and figures contained in each letter are the same except in the February 23, 2010 version the following paragraph has been added on page 1:

In February 2010, we have been notified by Nortel that they will stop paying non-pension benefits after December 31, 2010. We have also been advised by Nortel that it intends to account for this event as a subsequent event. Any required curtailment and settlement in this respect would be accounted for in fiscal 2010 or later.

Let me know if you have any further questions.

Sincerely,

Ellen Whelan, FSA, FCIA  
Principal  
Copy:

# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

Page 2  
23 February 2010  
Lee K. Close  
Ernst & Young Inc.

Gale Rubenstein, Goodmans LLP  
Elizabeth Smith, Nortel Networks Limited  
Wendy Ward, Nortel Networks Limited  
Paul Forestell, Mercer  
Teresa Palandra, Mercer

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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 *et al.*

Court File No: 09-CL-7950

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

Proceeding commenced at Toronto

**SUPPLEMENT TO THIRTY-NINTH REPORT  
OF THE MONITOR  
DATED FEBRUARY 23, 2010**

**GOODMANS LLP**

Barristers & Solicitors  
Bay Adelaide Centre, 333 Bay Street  
Toronto, Canada M5H 2S7

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Lawyers for the Monitor, Ernst & Young Inc.