

27 August 2010

Valuation of the Obligations of  
the Non-Pension Benefits as at  
December 31, 2010  
Nortel Networks Limited

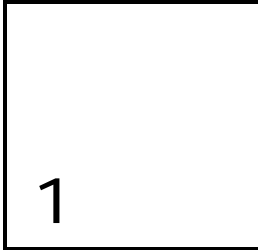
**MERCER**



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

## Contents

1. Introduction.....	1
2. Valuation Results.....	5
3. Membership Data .....	7
▪ Included Members .....	9
▪ Member Headcount .....	10
▪ Summary of Data.....	11
4. Methods and Assumptions.....	14
▪ Post Retirement Medical, Dental and Life Insurance Benefits (PRB – M&D, PRB – Life and PRB – ADB) .....	15
▪ Benefits Provided to Disabled Members – LTD Income, Medical, Dental, Life Insurance, Optional Life Insurance and STB Benefits (LTD – Income, LTD – IBNR, LTD – M&D, LTD – Life, LTD – Optional Life, LTD – STB – Accruals).....	20
▪ Survivor Benefits (SIB, STB).....	25
5. Calculations for Individual Member Allocation of Trust.....	26
6. Non-Pension Benefit Plan Provisions.....	28
▪ Post Retirement Benefits .....	28
▪ Benefits Provided to Disabled Members .....	33
▪ Survivor Benefits.....	34
7. Employer Certification.....	35



## Introduction

To Nortel Networks Limited (“Nortel” or the “Company”) and Ernst & Young Inc. (the “Monitor”).

In accordance with your request, we have performed a valuation of the non-pension benefits provided by Nortel for purposes of termination of their Health and Welfare Trust (“Trust”). This report contains preliminary estimated liabilities for the identified non-pension plans and plan members based on assumptions and methodologies as reviewed with Nortel and the Monitor. We understand that the liability figures provided in this report (along with the corresponding per member Excel file) are expected to be used for the following purposes:

1. To determine a pro-rata allocation of the accumulated Trust funds to different benefit types.
2. To determine an initial estimate of the corresponding per claimant liabilities for a certain subset of the specific benefits provided in this report. These liabilities, after potential adjustments for updates, will be used to determine the pro-rata allocation of the Trust funds for the specified benefit, to the individual claimants on a pro-rata basis.

This is all subject to the approval of the court in Nortel’s insolvency proceedings.

We understand that Nortel will stop making benefit payments under both the non-pension post retirement, long-term post employment and survivor benefit plans as at December 31, 2010. The liabilities in this report have been determined using the membership status as at the dates outlined below projected to December 31, 2010. The liabilities represent the present value as at December 31, 2010, of expected benefits to be received/claimed after December 31, 2010. The membership data used for the valuations is outlined in Section 3.

Nortel has established a Health & Welfare Trust for the purposes of funding its member benefit plans. Most of Nortel's benefits, including life insurance, disability, medical and dental, and survivor income benefits, are funded through the Trust. These benefits are extended to active, disabled and certain pensioned members and their beneficiaries. Most of the benefits are funded by Nortel on a "pay-as-you-go" basis. Nortel makes contributions to the Trust to pay for the current benefits paid for by the Trust. Nortel has made contributions in excess of current benefit payments, and therefore funds have accumulated in the Trust.

We understand that as part of the insolvency proceedings, the Trust will be terminated and the accumulated funds distributed to the beneficiaries, subject to the approval of the court in the insolvency proceedings. We understand that the liabilities identified in this report, subject to potential subsequent adjustments, will be referenced to determine the allocation to different benefit types and to different individual claimants.

The scope of our work did not include legal or tax review of the Trust or a determination of appropriate contribution levels.

Liabilities for the following benefit plans have been provided in this report:

1. Post retirement medical and dental benefits (PRB – M&D)
2. Post retirement life insurance (PRB – Life)
3. Post retirement additional death benefit (PRB – ADB)
4. Long term disability income benefits (LTD – Income)
5. Medical and Dental benefits for LTD<sup>1</sup> claimants (LTD – M&D)
6. Life insurance benefits for LTD<sup>2</sup> claimants (LTD – Life)
7. Optional life insurance benefits for LTD claimants (LTD – Optional Life)
8. Survivor Transition Benefits for members on LTD (STB – LTD – accrual)
9. Survivor Income Benefit plan (SIB)
10. Survivor Transition Benefit plan (STB)

We have only provided a liability estimate for the benefits outlined above. Note that any references for the dental plan for the LTD members, includes vision care and hearing costs (DVH plan), whereas for the PRB plans these costs are measured separately but included in PRB-M&D. At this time, we had insufficient data to determine a liability for the waiver of premium for the Optional Life Insurance benefit while the member is on LTD, including which employees on LTD participate in the Optional Life Insurance plan and therefore it has yet to be determined.

---

<sup>1</sup> Members on LTD with full benefit offsets (i.e. WSIB income benefit is greater than the LTD income benefit) that are still eligible for Medical and Dental Benefits have been included in the information provided.

<sup>2</sup> Members on LTD with full benefit offsets (i.e. WSIB income benefit is greater than the LTD income benefit) that are still eligible for Life Insurance Benefits have been included in the information provided.

A complete description of the valuation including the benefits included, the assumptions used and the results is provided in the body of this report.

Although we have included the above Plans, we understand that no determination has been made of benefits that would participate in a distribution of the Trust on termination. Further, we make no comment on the applicability of the assumptions used herein, including the valuation date, for any purpose other than the valuation of the liabilities with respect to the termination of the Trust.

In our opinion:

- The individual membership data on which the valuation is based are sufficient and reliable for the purposes of preparing a preliminary estimate of the aggregate liabilities. However, for certain members, we were unable to obtain complete membership data, or to reconcile and validate the membership data. Furthermore, changes in status may occur for some members between the effective date of the data and the valuation date. Therefore, at this time, individual liability amounts should be considered as preliminary estimates only, subject to revision and correction when complete and correct data becomes available.
- The assumptions are in accordance with the instructions received from the Company and the Monitor, and in our opinion, are in aggregate, appropriate for the purposes of this report. The assumptions may not be appropriate for other potential purposes.
- The methods employed are in accordance with the instructions received from the Company and the Monitor for the valuation and, in our opinion, are appropriate for the purposes of the valuation.

This report has been prepared and our opinions given, in accordance with accepted actuarial practice in Canada. However, we are not aware of any actuarial standards or practice requirements specifically designed for settlement of non-pension benefits as outlined in this report. With respect to the selection of the discount rate and the assumed mortality we have used the assumptions described in Section 3800 – *Pension Commuted Values* of the Canadian Institute of Actuaries Standards of Practice.

The information contained in this report was prepared exclusively for Nortel and the Monitor, in connection with the court application with respect to the distribution of the Trust. This report is only intended for the purposes outlined above. Mercer assumes no liability for the use, or reliance upon, this report for purposes other than those specifically identified in this report.

Respectfully submitted,



---

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

---

August 27, 2010

Date



---

Karen Dixon  
Fellow of the Society of Actuaries

---

August 27, 2010

Date

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

2

## Valuation Results

The following table presents a summary of the estimated liabilities from our valuation as at December 31, 2010 (in millions Canadian dollars).

Plans	Actives	LTD	Pensioners/ Beneficiaries	Total	Percent
PRB - M&D	\$1.0	\$5.2	\$250.3	\$256.5	47.2%
PRB - Life	1.0	2.0	124.9	127.9	23.6%
PRB - ADB			1.0	1.0	0.2%
<b>PRB - Total</b>	<b>\$2.0</b>	<b>\$7.2</b>	<b>\$376.2</b>	<b>\$385.4</b>	<b>71.0 %</b>
LTD - Income		\$77.3		\$77.3	14.2%
LTD - IBNR		2.6		2.6	0.5%
LTD - M&D		24.5		24.5	4.5%
LTD - Life		2.5		2.5	0.5%
LTD - Optional Life		TBD		TBD	TBD
LTD - STB - accrual		0.3		0.3	0.1%
<b>LTD - Total</b>	<b>\$0.0</b>	<b>\$107.2</b>	<b>\$0.0</b>	<b>\$107.2</b>	<b>19.7%</b>
SIB			\$16.2	\$16.2	3.0%
STB - in receipt			4.1	4.1	0.8%
STB - accrual			30.0	30.0	5.5%
<b>SIB/STB - Total</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$50.3</b>	<b>\$50.3</b>	<b>9.3%</b>
<b>Grand Total</b>	<b>\$2.0</b>	<b>\$114.4</b>	<b>\$426.5</b>	<b>\$542.9</b>	<b>100.0%</b>

Please note the following:

- LTD – IBNR: As at June 30, 2010 there were 4 members on short term disability (STD) and 2 members with LTD claims under appeal. The status of their claim for LTD as at December 31, 2010 cannot be known for certain at this time. Therefore, an estimate of their LTD income and medical, dental, basic and optional life insurance and STB benefits has been determined assuming they are an open LTD claim at December 31, 2010 and included in the table above under LTD – IBNR. One of these members would meet the eligibility requirements for the post retirement benefits as at December 31, 2010 if they were still employed at that date and the liability for this has been included in the post retirement liabilities (PRB) above for this member.
- LTD – Optional Life: At this time, we had insufficient data to determine a liability for the waiver of premium for the Optional Life Insurance benefit while the member is on LTD, including which employees on LTD participate in the Optional Life Insurance plan and therefore a liability estimate for this benefit has yet to be determined.
- LTD – STB – accrual: As at June 30, 2010, there are 101 members on LTD who have beneficiaries which will be eligible for the STB benefit upon the member's death if the member dies while on LTD. This information was based upon the members' date of disability and that they have elected family coverage for medical benefits.
- STB – in receipt: As at June 30, 2010 there were 305 surviving spouses currently in receipt of Income benefits with a benefit ending date after December 31, 2010.
- STB – accrual: As at June 30, 2010 there are 2,873 pensioners who have beneficiaries which will be eligible for the STB benefit upon the member's death if they survive the member.



3

## Membership Data

The membership data has been provided to us by the Company collected at different dates, as follows:

- PRB – Pensioner and Active data (including LTD) as at August 31, 2009, updated to reflect known restructuring and divestitures to March 31, 2010 was projected to December 31, 2010 and used for the PRB – M&D, PRB – Life and PRB – ADB Plans
- LTD (and STD) data as at June 30, 2010 was projected to December 31, 2010 and used for the LTD – Income, LTD – IBNR, LTD – M&D, LTD – Life Plans, LTD – STB – accrual Plans (LTD – Optional Life – data yet to be obtained)
- Survivor data as at June 30, 2010 was projected to December 31, 2010 and used for the SIB and STB income Plans; STB accruals were based on the PRB – Pensioner data outlined above

Due to the differences in the dates of the valuation data, certain members' status may be inconsistent between Plans. This explains the difference in the LTD headcounts shown on the membership statistics table on the next page (i.e. 355 LTD members were included in the PRB – M&D valuation; however, 360 (351 + 9 with \$0 net benefit) were included for LTD – Income).

**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 for the purpose of determining a reasonable estimate of the aggregate liabilities of the plan. The data are not sufficiently complete and reliable (and not as of the required valuation date) for the purpose of allocation of assets to individual**

**members without the benefit of subsequent adjustments to reflect true-ups in the membership data.**

Mercer has used and relied on the membership data supplied by Nortel, and summarized in this valuation report. Nortel is responsible for ensuring that such membership data provides an accurate description of all persons who are eligible for benefits as of December 31, 2010 and that it is sufficiently comprehensive and accurate for the purposes of this report.

## Included Members

The following table describes the basis for establishing the estimated liability as of December 31, 2010 for each member group:

Member Group	Liability Determination Basis
<b>PRB - Pensioners/ Beneficiaries</b>	The liability represents the actuarial present value of the benefits payable under the Plans as of December 31, 2010 based on members who were retired as at the dates of the data as outlined above.
<b>PRB – Active Members</b>	The liability represents the actuarial present value of the benefits payable under the Plans assuming the member terminated employment on December 31, 2010 and benefits commence immediately if the member met the eligibility requirements for the plan at that date, based on members who were active as at the dates of the data as outlined above. If the member does not meet the eligibility requirements for the plan at December 31, 2010 no liability has been calculated.
<b>PRB – Disabled Members</b>	The liability represents the actuarial present value of the benefits payable under the Plans assuming the members remain on LTD until age 65 and commence these benefits at age 65 if they meet the eligibility requirements at that date. The actuarial present value is discounted by the cumulative ultimate recovery rates for the period between the projected age at December 31, 2010 and the earliest eligibility age for these benefits.
<b>LTD - Disabled Members</b>	<p>The liability represents the actuarial present value of the benefits (i.e. LTD - Income, LTD – M&amp;D, LTD – Life, LTD – Optional Life, LTD – STB – accrual) payable after December 31, 2010 and until the earliest of age 65, recovery, or death according to the recovery and mortality assumptions.</p> <p>For members who are on Short Term Disability or have appealed STD or LTD claims as at the date of the data as outlined above, a liability has been included in this report (LTD – IBNR) for them in the same manner as open LTD claims as outlined above for the Income, Medical, Dental, Basic and Optional Life insurance and STB benefits.</p>
<b>SIB/STB – Pensioners/ Beneficiaries</b>	The liability represents the actuarial present value of the benefits payable under the Plans as of December 31, 2010 based on members who were retired as at the dates of the data as outlined above for the “accruals”, and based on beneficiaries who were in receipt of the benefits as at the date of the data as outlined above for the “in receipt”.

The data used in this valuation includes plan provisions, membership data, and claims data. This data has been provided by Nortel and Sun Life.

This valuation is based on the plan provisions as provided by Nortel and the provisions of Government Healthcare Programs as they existed at the time of the valuation. Except as otherwise noted, it has been assumed that the Nortel and Government plan provisions described and valued in this report continue unchanged.

## Member Headcount

Plans	Remaining Active	LTD	Pensioners/ Beneficiaries	Total
PRB – M&D <sup>3</sup>	165	355	10,660	11,180
PRB – Life	165	355	9,941	10,461
PRB – ADB	0	0	77	77
LTD – Income	0	351	0	351
LTD – IBNR	0	6	0	6
LTD – M&D <sup>4</sup>	0	360	0	360
LTD – Life	0	358	0	358
LTD – Optional Life	0	TBD	0	TBD
LTD – STB – accrual	0	101	0	101
SIB	0	0	81	81
STB – in receipt	0	0	305	305
STB – accrual	0	0	2,873	2,873

<sup>3</sup> There are also 6,251 spouses of pensioners covered for benefits.

<sup>4</sup> There are also 158 spouses and 160 children covered for benefits (85 members with children).

## Summary of Data

	Non-Union	Union	Total
PRB – Pensioner/Beneficiary Members projected to 31.12.10			
<b><i>Pensioners</i></b>			
<b>Total Number</b>	<b>4,580</b>	<b>5,495</b>	<b>10,075</b>
▪ Average Age (years)	73.4	74.9	74.2
<b>Number with Medical/Dental</b>	<b>3,956</b>	<b>5,490</b>	<b>9,446</b>
▪ Average Age (years)	73.8	74.9	74.4
<b>Number with Life Insurance</b>	<b>4,555</b>	<b>5,386</b>	<b>9,941</b>
▪ Average Age (years)	73.4	74.7	74.1
▪ Average Life Insurance	\$36,279	\$14,618	\$23,690
<b>Number with ADB</b>	<b>77</b>		<b>77</b>
▪ Average Age (years)	87.5		87.5
▪ Average ADB Benefit	\$23,714		\$23,714
<b><i>Spouses of Pensioners</i></b>			
<b>Number with Medical/Dental</b>	<b>2,859</b>	<b>3,392</b>	<b>6,251</b>
▪ Average Age (years)	70.3	72.6	71.5
<b><i>Surviving Spouses</i></b>			
<b>Number with Medical/Dental</b>	<b>577</b>	<b>637</b>	<b>1,214</b>
▪ Average Age (years)	81.3	78.6	79.9
PRB - Active Members projected to 31.12.10			
<b>Number</b>	<b>150</b>	<b>15</b>	<b>165</b>
▪ Average age (years)	59.1	58.1	59.0
▪ Average service (years)	31.3	33.1	31.5
▪ Average life insurance	\$24,000	\$38,446	\$25,234
PRB - LTD Members projected to 31.12.10			
<b>Number</b>	<b>211</b>	<b>144</b>	<b>355</b>
▪ Average age (years)	54.9	58.5	56.4
▪ Average service (years)	30.7	25.6	28.6
▪ Average life insurance	\$19,555	\$37,883	\$26,958

	Non-Union	Union	Total
LTD Members projected to 31.12.10 <sup>5</sup>			
<b>Number with Income Benefits<sup>6</sup></b>	<b>225</b>	<b>126</b>	<b>351</b>
▪ Average age (years)	54.5	58.3	55.8
▪ Average duration on claim	12.2	17.6	14.2
▪ Average monthly benefit	\$3,018	\$1,651	\$2,527
<b>Number with Medical/Dental</b>	<b>232</b>	<b>128</b>	<b>360</b>
▪ Average age (years)	54.4	58.2	55.8
▪ Average duration on claim	12.3	17.6	14.2
<b>Number with Basic Life Insurance</b>	<b>232</b>	<b>126</b>	<b>358</b>
▪ Average age (years)	54.4	59.2	56.1
▪ Average duration on claim	12.3	17.9	14.2
▪ Average life insurance benefit	\$65,305	\$33,536	\$54,124
<b>Number with Optional Life Insurance</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>
Average age (years)	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>
Average duration on claim	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>
Average optional life insurance benefit	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>
<b>Number with STB accrual</b>		<b>101</b>	<b>101</b>
▪ Average age (years)		57.0	57.0
▪ Average monthly STB benefit		\$551	\$551
LTD – IBNR <sup>7</sup> Members projected to 31.12.10			
<b>Number with Income Benefits</b>	<b>6</b>		<b>6</b>
▪ Average age (years)	50.2		50.2
▪ Average duration on claim	1.7		1.7
▪ Average monthly benefit	\$5,013		\$5,013
<b>Number with Medical/Dental</b>	<b>6</b>		<b>6</b>
▪ Average age (years)	50.2		50.2
▪ Average duration on claim	1.7		1.7
<b>Number with Basic Life Insurance</b>	<b>6</b>		<b>6</b>
▪ Average age (years)	50.2		50.2
▪ Average duration on claim	1.7		1.7
▪ Average life insurance benefit	\$103,453		\$103,453

<sup>5</sup> 3 Non-Union and 3 Union members from the data provided were excluded as they will reach age 65 before December 31, 2010.

<sup>6</sup> 6 Non-union and 2 Union members from the data provided have \$0 net benefit as the Workers' Compensation benefits or other offsets have reduced the net benefit to \$0. One Non-Union member is from previous divestitures and Nortel is only responsible for their medical/dental and life insurance benefits. All 9 of these records have been excluded from the LTD income benefit information.

<sup>7</sup> There are 4 members on STD and 2 members with STD/LTD claims under appeal as at the date of this report. We have included a liability estimate for these members assuming they are on open LTD claim as at December 31, 2010.

<b>Number with Optional Life Insurance</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>
Average age (years)	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>
Average duration on claim	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>
Average optional life insurance benefit	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>

SIB/STB – Beneficiaries in receipt of SIB/STB projected to 31.12.10

<b>Number of STB</b>		<b>305</b>	<b>305</b>
▪ Average Age (years)		76.7	76.7
▪ Average monthly STB benefit		\$535	<b>\$535</b>
<b>Number of SIB</b>	<b>81</b>		<b>81</b>
▪ Average Age (years)	70.5		70.5
▪ Average monthly SIB benefit	\$1,395		\$1,395

STB – Accruals for Future Beneficiaries projected to 31.12.10

<b>Number</b>		<b>2,873</b>	<b>2,873</b>
▪ Average Age (years)		74.5	74.5
▪ Average monthly STB Benefit		\$579	\$579

---

4

## Methods and Assumptions

### Comments

The actuarial assumptions and methodologies used were reviewed with Nortel and the Monitor.

The future is uncertain and the actual experience will differ from those assumptions. These differences may be significant or material because valuation results are very sensitive to the assumptions made and, in some cases, to the interaction between assumptions. Different assumptions or scenarios within a range of possibilities may also be reasonable and results based on those assumptions would be different. No one projection of the future or set of assumptions for the future covering a long period of time is uniquely "correct". Due to the limited scope of our assignment, we did not perform, nor do we present, an analysis of the potential range of future possibilities and scenarios.

The figures provided in this report do not reflect the potential tax consequences, if any, on the liability estimates.

In connection with the discount rate, there is no applicable standard of practice which specify how the discount rate should be determined for purposes of the settlement of the non-pension benefits. The discount rate has been determined based on the assumptions described in Section 3800 – *Pension Commuted Values* of the Canadian Institute of Actuaries Standards of Practice. The discount rate(s) selected reflect a reasonable choice of rate(s), but do not reflect in detail all potential considerations.



## Post Retirement Medical, Dental and Life Insurance Benefits (PRB – M&D, PRB – Life and PRB – ADB)

The liability for the PRBs is determined for each individual. The liability is equal to the present value of expected future benefits after December 31, 2010. Anticipated benefits are discounted for payment eligibility, for increases in medical and dental costs and the time value of money.

The assumptions used are described in the following table:

<i>Measurement date</i>	December 31, 2010
<i>Discount rate</i>	3.70% per annum for 10 years, then 5.10% per annum thereafter
<i>Health care cost trend rates</i>	<b>Grandfathered Traditional Program</b>
	Semi-Private Hospital 4.75% per annum
	Prescription Drugs 8.40% per annum in 2011 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 1 year, then 4.5% per annum thereafter

<i>Health care cost trend rates (Cont'd)</i>	<b>Non-Grandfathered Traditional Program</b>	
	Catastrophic Plan	7.55% per annum in 2011 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 1 year, 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 1 year, then 4.5% per annum thereafter
<i>Mortality</i>	UP 94 mortality table with generational improvements projected to 2020	
<i>Retirement rates</i>	Members currently in receipt of LTD benefits are assumed to retire at age 65. Active members who meet the eligibility requirements for benefits are assumed to retire at December 31, 2010.	
<i>Marital status</i>	For active members, 90% are assumed to be married at retirement with males assumed to be 3 years older than their female spouses. For current pensioners, actual spousal information was used	

<i>2011 per capita claim cost at age 65</i>	<b>Grandfathered Traditional Program</b>							
	Semi-private Hospital						\$25	
	Prescription Drugs <sup>8</sup>						793	
	Vision Care						17	
	Other Medical						120	
	Dental Care						245	
	<b>Total</b>						<b>\$1,200</b>	
	<b>Non-Grandfathered Traditional Program</b>							
	Catastrophic Medical Program	\$1,004						
	Healthcare Spending Account						\$50 <sup>9</sup> per year of service from age 40 to retirement age	
<b>Balanced Program</b>								
Healthcare Spending Account						\$50 <sup>9</sup> per year of service from age 40 to retirement age		
<b>SARP Program</b>								
Healthcare Spending Account						\$50 <sup>9</sup> per year of service from age 40 to retirement age		
<i>Increases in cost by age</i>	<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>5</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%
	<i>Prescription drug offset assumption at age 65 and after</i>	Alberta: 55% of claims						
Ontario: 65% of claims								
Quebec: 50% of claims								
Others: 0%								

<sup>8</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.

<sup>9</sup> Amount decreases to 50% upon members' death and continues for surviving spouses.

*Adjustment factors for the Catastrophic Medical Plan deductible and lifetime maximum*

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

*Provincial government plans*

As of January 1, 2010 the pensioner 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 MSP	\$57 (\$60 projected to 2011)	\$102 (\$108 projected to 2011)

## ***Claims Cost Development***

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

The 2011 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, applying equal weight to all experience years. Claim costs were trended to the mid-point (July 1, 2011) of the current valuation period. Refer to the schedule for the development of the 2011 claim costs on the following page.

### ***Catastrophic Plan***

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

### Grandfathered Traditional Plan

	2009 Total	2008 Total	2007 Total
<b>Actual Nortel pensioners' paid claims (before administration costs and taxes)</b>			
Hospital	\$906,256	\$1,078,173	\$1,100,660
Drug	6,866,200	6,864,493	6,538,106
Vision care	328,025	285,046	287,077
Other medical	2,249,351	2,506,056	1,845,079
Dental	4,007,245	3,499,054	3,450,648
<b>Total</b>	<b>\$14,357,078</b>	<b>\$14,232,822</b>	<b>\$13,221,571</b>
<b>Number of Nortel pensioners, spouses and surviving spouses</b>			
▪ Eligible for medical benefits	17,995	17,943	17,856
▪ Eligible for dental benefits	17,995	17,943	17,856
<b>Per covered member costs</b>			
Hospital	\$50.36	\$60.09	\$61.64
Drug	381.56	382.57	366.16
Vision care	18.23	15.89	16.08
Other medical	125.00	139.67	103.33
Dental	222.69	195.01	193.25
<b>Total</b>	<b>\$797.84</b>	<b>\$793.22</b>	<b>\$740.46</b>
<b>Trend to July 01, 2009</b>			
Hospital	1.00	1.05	1.10
Drug	1.00	1.09	1.19
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	\$50.36	\$62.94	\$67.64
Drug	381.56	417.00	435.03
Vision care	18.23	15.89	16.08
Other medical	125.00	146.30	113.38
Dental	222.69	204.27	212.04
<b>Total</b>	<b>\$797.84</b>	<b>\$846.41</b>	<b>\$844.17</b>
<b>Weighting</b>			
	33%	33%	33%
<b>Trend to July 01, 2011</b>			
Hospital	1.097		
Drug	1.182		
Vision care	1.000		
Other medical	1.097		
Dental	1.097		
<b>2011 per covered member costs</b>			
Hospital	\$66.18		
Drug	485.86		
Vision care	16.73		
Other medical	140.70		
Dental	233.72		
<b>Total</b>	<b>\$943.18</b>		
<b>Adjustment factors to convert 2011 per covered member costs into age 65 per covered member costs</b>			
Hospital	0.3778		
Drug	1.6322		
Vision care	1.0161		
Other medical	0.8529		
Dental	1.0483		
<b>Drug offset assumption at age 65</b>			
	0%		
<b>Per covered member age 65 claims costs (2011 per covered member costs x adjustment factors)</b>			
Hospital	\$25.00		
Drug - incorporating 0% drug offset	793.00		
Vision care	17.00		
Other medical	120.00		
Dental	245.00		
<b>Total</b>	<b>\$1,200.00</b>		

## Benefits Provided to Disabled Members – LTD Income, Medical, Dental, Life Insurance, Optional Life Insurance and STB Benefits (LTD – Income, LTD – IBNR, LTD – M&D, LTD – Life, LTD – Optional Life, LTD – STB – Accruals)

In general, disabled members are provided the same benefits as active members.<sup>10</sup> Benefits are paid to the earlier of recovery, death or attainment of age 65. The benefits provided are the benefits in effect at the time the member is disabled. The liability associated with this obligation is the present value of income payments, health care claim reimbursements and life insurance benefits provided to disabled members while they are disabled or upon their death during disability. Income and/or benefits are discounted for the likelihood of continuing disability and the time value of money. Anticipated payments are increased to reflect increases in the cost of living for members with indexed LTD income benefits or trend rate increases in the cost of medical and dental benefits.

<i>Measurement date</i>	December 31, 2010
<i>Discount rate</i>	3.70% per annum for 10 years, then 5.10% per annum thereafter
<i>COLA increase for members with indexed benefits</i>	60% of (1.66% per annum for 10 years, then 2.49% per annum thereafter)
<i>Medical trend rate</i>	8.4% per annum in 2011 grading down linearly to 5.0% per annum in and after 2028.
<i>Dental (DVH) trend rate</i>	4.75% per annum
<i>CPP offset</i>	If the LTD claimant has an approved CPP/QPP disability pension at the date of the valuation, the valuation assumes that benefit level will continue.  If the LTD claimant does not have an approved CPP/QPP disability pension at the date of the valuation, the valuation assumes no disability pension will be awarded in the future.
<i>Termination rate (due to mortality, termination and recovery) assumption</i>	Canadian Group Long Term Disability Termination Experience 1988-1997 as at December 31, 2009 assuming a 6 month elimination period for non-union members and a 12 month elimination period for union members, no modifications applied; 11.99% Quebec assumed
<i>Covered dependents</i>	Actual covered dependent information was used to determine the medical and dental liabilities for the non-union members.  Coverage level (EE Only or EE&Family) was used to determine the medical and dental liabilities for the union members and for their STB accrual liabilities,
<i>Average STB monthly benefit</i>	Actual STB monthly benefit was known for 2 eligible members and assumed to be \$550 per month for other eligible members.

<sup>10</sup> Where the benefit program has changed since the member became disabled, the member may be provided benefits under the earlier benefit program or may have been changed to the newer benefit plan. As an example, certain disabled union members are provided with STB coverage.

<i>2011 per capita claim cost (contributions not subtracted)</i>	<b>NON-UNION<sup>11</sup></b>	<b>Employee</b>	<b>Employee + Spouse</b>	<b>Employee + Child</b>	<b>Employee + Spouse + Child</b>
	<b>Medical</b>				
▪ Comprehensive		\$3,883	\$4,549	\$4,382	\$5,048
▪ Plus		\$4,357	\$5,223	\$4,821	\$5,687
▪ Select		\$9,085	\$15,439	\$9,445	\$15,799
<b>Dental (DVH)<sup>12</sup></b>					
▪ Comprehensive		\$462	\$823	\$1,085	\$1,446
▪ Plus		\$671	\$1,150	\$1,480	\$1,959
	<b>UNION</b>	<b>Employee</b>	<b>Employee + Spouse</b>	<b>Employee + Child</b>	<b>Employee + Spouse + Child</b>
<b>Medical</b>		\$4,464	N/A	N/A	\$7,090
<b>Dental<sup>11</sup></b>		\$433	N/A	N/A	\$1,370
<i>2011 annual employee contributions</i>	<b>NON-UNION<sup>10</sup></b>	<b>Employee</b>	<b>Employee + Spouse</b>	<b>Employee + Child</b>	<b>Employee + Spouse + Child</b>
<b>Medical</b>					
▪ Comprehensive		\$0	\$72	\$56	\$135
▪ Plus		\$150	\$461	\$356	\$616
▪ Select		\$277	\$831	\$468 <sup>13</sup>	\$1,115
<b>Dental (DVH)<sup>11</sup></b>					
▪ Comprehensive		\$0	\$41	\$26	\$110
▪ Plus		\$97	\$345	\$233	\$519

## **Claims Cost Development**

The 2011 per covered person claim costs are based on actual claims experience for Nortel's disabled members and their covered dependents for the calendar years, 2008 to 2009, applying equal weight to all experience years. Claims totalling \$292,800 for 2008 and \$106,800 for 2009 were provided but not identified as being from union or non-union members. These claims were allocated to the union and non-union groups on a pro-rata basis. Claim costs were then trended to the mid-point (July 1, 2011) of the

<sup>11</sup> There are 5 union members who are identified as receiving the Non-Union plan and paying appropriate contributions, so we have included them in the Non-Union plan.

<sup>12</sup> Dental costs for disabled members also include Vision Care and Hearing benefit costs.

<sup>13</sup> There are 2 members with this level of coverage and paying different contributions rates. The average has been shown here.

current valuation period. Refer to the schedules for the development of the 2011 claim costs on the following pages.



2008 Data

Employee	Records	Per Capita Claim Costs			Records	Trend to 2011		Trended Claim Costs			
		Med	DVH	Total		Med	DVH	Med	DVH		
Union	150	\$694,225	\$62,620	\$756,846	\$ 179.76	\$ 3,861.98	\$ 348.36	1.287909	1.149376	\$ 4,973.89	\$ 400.39
Non-Union	223	\$977,166	\$117,345	\$1,094,511	\$ 267.24	\$ 3,656.50	\$ 439.10	1.287909	1.149376	\$ 4,709.23	\$ 504.69
<i>Medical</i> COMP-Comprehensive Medical	154	\$602,489	N/A	\$602,489	\$ 184.55	\$ 3,264.60	N/A	1.287909	1.149376	\$ 4,204.51	
PLUS-Plus Medical	55	\$246,843	N/A	\$246,843	\$ 65.91	\$ 3,745.07	N/A	1.287909	1.149376	\$ 4,823.31	
SMED-Select Medical	14	\$127,834	N/A	\$127,834	\$ 16.78	\$ 7,619.37	N/A	1.287909	1.149376	\$ 9,813.06	
WAIV-Waived Medical	0	\$0	N/A	\$0	\$ -	\$ -	N/A	1.287909	1.149376	\$ -	
<i>DVH</i> COMP-Comprehensive DVH	164	N/A	\$77,876	\$77,876	N/A 196.54	\$ 396.24		1.287909	1.149376		\$ 455.43
PLUS-Plus DVH	59	N/A	\$39,469	\$39,469	N/A 70.71	\$ 558.22		1.287909	1.149376		\$ 641.60
WAIV-Waived DVH	0	N/A	\$0	\$0	N/A -	\$ -		1.287909	1.149376		\$ -
<b>Total</b>	<b>447</b>	<b>\$1,671,392</b>	<b>\$179,965</b>	<b>\$1,851,357</b>	<b>\$ 447.00</b>	<b>\$ 3,739.13</b>	<b>\$ 402.61</b>	<b>1.287909</b>	<b>1.149376</b>	<b>\$ 4,815.66</b>	<b>\$ 462.75</b>
<b>Spouse</b>	<b>Records</b>	<b>Med</b>	<b>DVH</b>	<b>Total</b>	<b>Records</b>	<b>Med</b>	<b>DVH</b>			<b>Med</b>	<b>DVH</b>
Union	82	\$133,938	\$30,174	\$164,111	\$ 97.20	\$ 1,377.96	\$ 310.43	1.287909	1.149376	\$ 1,774.69	\$ 356.80
Non-Union	123	\$148,422	\$47,796	\$196,218	\$ 145.80	\$ 1,017.98	\$ 327.82	1.287909	1.149376	\$ 1,311.07	\$ 376.78
<i>Medical</i> COMP-Comprehensive Medical	81	\$47,767	N/A	\$47,767	\$ 96.01	\$ 497.50	N/A	1.287909	1.149376	\$ 640.73	
PLUS-Plus Medical	31	\$26,300	N/A	\$26,300	\$ 36.75	\$ 715.71	N/A	1.287909	1.149376	\$ 921.77	
SMED-Select Medical	11	\$74,355	N/A	\$74,355	\$ 13.04	\$ 5,702.51	N/A	1.287909	1.149376	\$ 7,344.32	
WAIV-Waived Medical	0	\$0	N/A	\$0	\$ -	\$ -	N/A	1.287909	1.149376	\$ -	
<i>DVH</i> COMP-Comprehensive DVH	86	N/A	\$30,729	\$30,729	N/A 101.94	\$ 301.43		1.287909	1.149376		\$ 346.46
PLUS-Plus DVH	37	N/A	\$17,067	\$17,067	N/A 43.86	\$ 389.14		1.287909	1.149376		\$ 447.27
WAIV-Waived DVH	0	N/A	\$0	\$0	N/A -	\$ -		1.287909	1.149376		\$ -
<b>Total</b>	<b>243</b>	<b>\$282,360</b>	<b>\$77,969</b>	<b>\$360,329</b>	<b>\$ 243.00</b>	<b>\$ 1,161.98</b>	<b>\$ 320.86</b>	<b>1.287909</b>	<b>1.149376</b>	<b>\$ 1,496.52</b>	<b>\$ 368.79</b>
<b>Child</b>	<b>Records</b>	<b>Med</b>	<b>DVH</b>	<b>Total</b>	<b>Records</b>	<b>Med</b>	<b>DVH</b>			<b>Med</b>	<b>DVH</b>
Union	33	\$27,667	\$20,608	\$48,275	\$ 36.76	\$ 752.58	\$ 560.57	1.287909	1.149376	\$ 969.25	\$ 644.30
Non-Union	81	\$32,202	\$50,810	\$83,012	\$ 90.24	\$ 356.86	\$ 563.08	1.287909	1.149376	\$ 459.60	\$ 647.19
<i>Medical</i> COMP-Comprehensive Medical	50	\$20,682	N/A	\$20,682	\$ 55.70	\$ 371.30	N/A	1.287909	1.149376	\$ 478.20	
PLUS-Plus Medical	24	\$9,640	N/A	\$9,640	\$ 26.74	\$ 360.54	N/A	1.287909	1.149376	\$ 464.35	
SMED-Select Medical	7	\$1,880	N/A	\$1,880	\$ 7.80	\$ 241.07	N/A	1.287909	1.149376	\$ 310.48	
WAIV-Waived Medical	0	\$0	N/A	\$0	\$ -	\$ -	N/A	1.287909	1.149376	\$ -	
<i>DVH</i> COMP-Comprehensive DVH	58	N/A	\$31,264	\$31,264	N/A 64.61	\$ 483.85		1.287909	1.149376		\$ 556.13
PLUS-Plus DVH	23	N/A	\$19,547	\$19,547	N/A 25.62	\$ 762.86		1.287909	1.149376		\$ 876.81
WAIV-Waived DVH	0	N/A	\$0	\$0	N/A -	\$ -		1.287909	1.149376		\$ -
<b>Total</b>	<b>127</b>	<b>\$59,869</b>	<b>\$71,419</b>	<b>\$131,287</b>	<b>\$ 127.00</b>	<b>\$ 471.41</b>	<b>\$ 562.35</b>	<b>1.287909</b>	<b>1.149376</b>	<b>\$ 607.13</b>	<b>\$ 646.35</b>

2009 Data

Employee	Records	Med	DVH	Total	Per Capita Claim Costs			Trend to 2011		Trended Claim Costs		Averaged Claim Costs	
					Records	Med	DVH	Med	Dent	Med	DVH	Med	DVH
Union	150	\$605,556	\$76,873	\$682,429	181	\$ 3,345.71	\$ 424.72	1.181568	1.097256	\$ 3,953.18	\$ 466.03	\$ 4,463.53	\$ 433.21
Non-Union	242	\$1,003,342	\$142,145	\$1,145,488	292	\$ 3,436.04	\$ 486.79	1.181568	1.097256	\$ 4,059.92	\$ 534.13	\$ 4,384.58	\$ 519.41
<i>Medical</i> COMP-Comprehensive Medical	161	\$585,698	N/A	\$585,698	194	\$ 3,014.90	N/A	1.181568	1.097256	\$ 3,562.31		\$ 3,883.41	
PLUS-Plus Medical	60	\$238,405	N/A	\$238,405	72	\$ 3,292.98	N/A	1.181568	1.097256	\$ 3,890.88		\$ 4,357.10	
SMED-Select Medical	21	\$179,239	N/A	\$179,239	25	\$ 7,073.58	N/A	1.181568	1.097256	\$ 8,357.91		\$ 9,085.48	
WAIV-Waived Medical	0	\$0	N/A	\$0	-	\$ -	N/A	1.181568	1.097256	\$ -		\$ -	
<i>DVH</i> COMP-Comprehensive DVH	173	N/A	\$88,954	\$88,954	209	N/A	\$ 426.13	1.181568	1.097256		\$ 467.57		\$ 461.50
PLUS-Plus DVH	69	N/A	\$53,192	\$53,192	83	N/A	\$ 638.88	1.181568	1.097256		\$ 701.02		\$ 671.31
WAIV-Waived DVH	0	N/A	\$0	\$0	-	N/A	\$ -	1.181568	1.097256		\$ -		\$ -
<b>Total</b>	<b>473</b>	<b>\$1,608,899</b>	<b>\$219,018</b>	<b>\$1,827,917</b>	<b>473</b>	<b>\$ 3,401.48</b>	<b>\$ 463.04</b>	<b>1.181568</b>	<b>1.097256</b>	<b>\$ 4,019.08</b>	<b>\$ 508.07</b>	<b>\$ 4,417.37</b>	<b>\$ 485.41</b>
<b>Spouse</b>	<b>Records</b>	<b>Med</b>	<b>DVH</b>	<b>Total</b>	<b>Records</b>	<b>Med</b>	<b>DVH</b>			<b>Med</b>	<b>DVH</b>	<b>Med</b>	<b>DVH</b>
Union	83	\$112,808	\$31,222	\$144,030	90	\$ 1,258.04	\$ 348.19	1.181568	1.097256	\$ 1,486.46	\$ 382.05	\$ 1,630.57	\$ 369.43
Non-Union	141	\$165,745	\$58,285	\$224,031	152	\$ 1,088.07	\$ 382.62	1.181568	1.097256	\$ 1,285.62	\$ 419.84	\$ 1,298.35	\$ 398.31
<i>Medical</i> COMP-Comprehensive Medical	88	\$55,681	N/A	\$55,681	95	\$ 585.67	N/A	1.181568	1.097256	\$ 692.01		\$ 666.37	
PLUS-Plus Medical	36	\$26,695	N/A	\$26,695	39	\$ 686.36	N/A	1.181568	1.097256	\$ 810.98		\$ 866.38	
SMED-Select Medical	17	\$83,370	N/A	\$83,370	18	\$ 4,539.36	N/A	1.181568	1.097256	\$ 5,363.56		\$ 6,353.94	
WAIV-Waived Medical	0	\$0	N/A	\$0	-	\$ -	N/A	1.181568	1.097256	\$ -		\$ -	
<i>DVH</i> COMP-Comprehensive DVH	94	N/A	\$34,674	\$34,674	102	N/A	\$ 341.43	1.181568	1.097256		\$ 374.64		\$ 360.55
PLUS-Plus DVH	47	N/A	\$23,612	\$23,612	51	N/A	\$ 465.01	1.181568	1.097256		\$ 510.23		\$ 478.75
WAIV-Waived DVH	0	N/A	\$0	\$0	-	N/A	\$ -	1.181568	1.097256		\$ -		\$ -
<b>Total</b>	<b>242</b>	<b>\$278,553</b>	<b>\$89,507</b>	<b>\$368,060</b>	<b>242</b>	<b>\$ 1,151.05</b>	<b>\$ 369.87</b>	<b>1.181568</b>	<b>1.097256</b>	<b>\$ 1,360.04</b>	<b>\$ 405.84</b>	<b>\$ 1,428.28</b>	<b>\$ 387.31</b>
<b>Child</b>	<b>Records</b>	<b>Med</b>	<b>DVH</b>	<b>Total</b>	<b>Records</b>	<b>Med</b>	<b>DVH</b>			<b>Med</b>	<b>DVH</b>	<b>Med</b>	<b>DVH</b>
Union	31	\$28,619	\$14,825	\$43,443	33	\$ 864.57	\$ 447.85	1.181568	1.097256	\$ 1,021.55	\$ 491.41	\$ 995.40	\$ 567.85
Non-Union	87	\$38,481	\$59,887	\$98,368	93	\$ 414.23	\$ 644.65	1.181568	1.097256	\$ 489.44	\$ 707.34	\$ 474.52	\$ 677.27
<i>Medical</i> COMP-Comprehensive Medical	50	\$23,516	N/A	\$23,516	53	\$ 440.45	N/A	1.181568	1.097256	\$ 520.43		\$ 499.31	
PLUS-Plus Medical	26	\$10,898	N/A	\$10,898	28	\$ 392.53	N/A	1.181568	1.097256	\$ 463.81		\$ 464.08	
SMED-Select Medical	11	\$4,067	N/A	\$4,067	12	\$ 346.29	N/A	1.181568	1.097256	\$ 409.17		\$ 359.83	
WAIV-Waived Medical	0	\$0	N/A	\$0	-	\$ -	N/A	1.181568	1.097256	\$ -		\$ -	
<i>DVH</i> COMP-Comprehensive DVH	58	N/A	\$38,946	\$38,946	62	N/A	\$ 628.85	1.181568	1.097256		\$ 690.01		\$ 623.07
PLUS-Plus DVH	29	N/A	\$20,941	\$20,941	31	N/A	\$ 676.24	1.181568	1.097256		\$ 742.01		\$ 809.41
WAIV-Waived DVH	0	N/A	\$0	\$0	-	N/A	\$ -	1.181568	1.097256		\$ -		\$ -
<b>Total</b>	<b>126</b>	<b>\$67,100</b>	<b>\$74,711</b>	<b>\$141,811</b>	<b>126</b>	<b>\$ 532.54</b>	<b>\$ 592.95</b>	<b>1.181568</b>	<b>1.097256</b>	<b>\$ 629.23</b>	<b>\$ 650.61</b>	<b>\$ 618.18</b>	<b>\$ 648.48</b>

## Survivor Benefits (SIB, STB)

The liability for the survivor benefits is determined for each individual. The liability is equal to the present value of expected future benefits after December 31, 2010 for those currently in receipt of a benefit. For certain pensioners, their beneficiaries are eligible for an STB benefit upon their death. The present value of these expected payments, that would start upon the member's death, has been included in the STB – accrual figures. Anticipated benefits are discounted for payment eligibility and the time value of money.

The assumptions used are described in the following table:

<i>Measurement date</i>	December 31, 2010
<i>Discount rate</i>	3.70% per annum for 10 years, then 5.10% per annum thereafter
<i>Mortality</i>	UP 94 mortality table with generational improvements projected to 2020

5

## Calculations for Individual Member Allocation of Trust

The aggregate estimated liabilities contained in this report are expected to be used to allocate the accumulated Trust assets to different benefit types, subject to court approval. The estimated liabilities for each covered individual as at the valuation date have also been calculated for LTD – Income, LTD – Life and SIB and STB – in receipt benefits. Individual member's amounts are expected to be used to allocate a pro-rata share of the accumulated Trust assets to each member, based on the allocation to that benefit level.

The following unique member information was used in determining the individual amounts for the LTD – Income and LTD life insurance amounts:

1. Attained age
2. Duration on disability
3. Gender
4. Net Monthly LTD income benefit after offsets for other income benefits (i.e. CPP, WSIB)
5. LTD index option
6. Basic life insurance volume

The following unique beneficiary information was used in determining the individual amounts for the SIB and STB amounts in receipt of payment:

1. Attained age
2. Remaining payment period for STB
3. Gender
4. Monthly STB or SIB income benefit

The estimated liability for each individual member on LTD or pensioner/beneficiary has not been calculated at this time for the LTD – M&D plan, LTD – IBNR, LTD – Optional

Life, the PRB – M&D, PRB – Life, PRB – ADB, or STB - accruals. To do so, the following unique member information would be used as required for the appropriate plan:

1. Attained age
2. Duration on disability
3. Gender
4. Basic life insurance volume or ADB volume or Optional Life volume
5. Benefit plan (union, non-union grandfathered, etc)
6. Benefit coverage (pensioner, pensioner and spouse, pensioner and spouse and child, etc)
7. Monthly STB income benefit

As noted in Section 3, the data are not sufficiently complete and reliable (and not as of the required valuation date) for purposes of the allocation of assets to individual members without the benefit of subsequent adjustments to reflect true ups in the membership data.

6

## Non-Pension Benefit Plan Provisions

### Post Retirement Benefits

#### ***Non-Union Pensioners (Retired on or after January 1, 2008)***

On June 2, 2006 Nortel announced changes to the post retirement benefits provided to non-union members. Effective January 1, 2008, non-union members 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% paid by pensioner)
- A flat \$10,000 life benefit

#### ***Non-Union Pensioners (Retired before January 1, 2008)***

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.

#### ***Union Pensioners***

Union pensioners 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.)

	Grandfathered Traditional Program	Non-Grandfathered Traditional Program	Non-Grandfathered Traditional, Balanced Program and SARP
		<b>Catastrophic Program</b>	<b>Healthcare Spending Account</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: Member must retire directly from active status or Long Term Disability</li> <li>▪ Part II: Member must be at least age 55 with 5 years of service at retirement</li> </ul>	<ul style="list-style-type: none"> <li>▪ If member does not qualify for the Grandfathered Traditional program</li> <li>▪ Part I: Member must retire directly from active status or Long Term Disability</li> <li>▪ Part II: Member must be at least age 55 with 10 years of service at retirement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Part I: Member must retire directly from active status or Long Term Disability</li> <li>▪ Part II: Balanced Program &amp; SARP; member must be at least age 55 with 10 years of service at retirement</li> <li>▪ Investor program for Quebec pensioners 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 pensioner</li> </ul>
<i>Cost Sharing</i>	<ul style="list-style-type: none"> <li>▪ 100% Nortel-paid if member at least age 50 with 5 years service at July 1, 2006, otherwise, 100% pensioner-paid</li> </ul>	<ul style="list-style-type: none"> <li>▪ 100% Nortel-paid if member at least age 50 with 5 years service at July 1, 2006, otherwise, 100% pensioner-paid</li> </ul>	<ul style="list-style-type: none"> <li>▪ 100% Nortel-paid if member at least age 50 with 5 years service at July 1, 2006, otherwise, 100% pensioner-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>

	Grandfathered Traditional Program	Non-Grandfathered Traditional Program	Non-Grandfathered Traditional, Balanced Program and SARP
		Catastrophic Program	Healthcare Spending Account
<i>Drug (Quebec) – Pensioners 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>Pensioner 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>Pensioner 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>Pensioner 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>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 pensioners in British Columbia.</li> </ul>	<ul style="list-style-type: none"> <li>Nortel Networks pays 100% of the provincial health insurance premiums for pensioners in British Columbia.</li> </ul>	<ul style="list-style-type: none"> <li>Nortel Networks pays 100% of the provincial health insurance premiums for pensioners in British Columbia.</li> </ul>



	Grandfathered Traditional Program	Non-Grandfathered Traditional Program	Non-Grandfathered Traditional, Balanced Program and SARP
		<b>Catastrophic Program</b>	<b>Healthcare Spending Account</b>
<i>Other Medical</i>	<ul style="list-style-type: none"> <li>▪ Includes:</li> <li><u>80% co-insurance:</u> <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><u>50% co-insurance:</u> <ul style="list-style-type: none"> <li>– Hearing aids</li> <li>– Nursing Homes</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Includes:</li> <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>	<ul style="list-style-type: none"> <li>▪ Not covered</li> </ul>
<i>Dental</i>	Coinsurance of:	Not Covered	Not covered
<i>Basic</i>	80%		
<i>Periodontic / Endodontic</i>	50%		
<i>Major Restorative</i>	50%		
<i>Orthodontic</i>	None		
<i>Maximum Benefit</i>	<ul style="list-style-type: none"> <li>▪ Periodontic / Endodontic: \$1,000 per person in any 3 years</li> <li>▪ Major: \$1,000 per person per calendar year</li> </ul>		

	Grandfathered Traditional Program	Non-Grandfathered Traditional Program	Non-Grandfathered Traditional, Balanced Program and SARP
		Catastrophic Program	Healthcare Spending Account
<i>Life Insurance</i>	<ul style="list-style-type: none"> <li>▪ Equal to pre-retirement basic life coverage</li> <li>▪ Non-union members 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> <p><b>Non-Union</b></p> <p><u>Non-Union Pre '91 Pensioner</u></p> <ul style="list-style-type: none"> <li>– Reduction stops when coverage is 75% of pre-retirement basic life coverage</li> </ul> <p><u>Non-Union Post '91 Pensioner</u></p> <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> <p><u>Exceptions to the Above:</u></p> <ul style="list-style-type: none"> <li>▪ For pensioners on private payroll whose band was 12 and above, and for NEDCO pensioners: the initial amount of insurance remains level after retirement</li> <li>▪ There is an identified group of members who retired (mostly) pre-1983 receiving an additional death benefit of 1x preretirement earnings, with no reductions</li> </ul> <p><b>Union</b></p> <p><u>Union Pre '91 Pensioner</u></p> <ul style="list-style-type: none"> <li>– Reduction stops when coverage is 75% of pre-retirement basic life coverage</li> </ul> <p><u>Union Post '91 Pensioner</u></p> <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>	<p><u>Non Grandfathered Traditional</u></p> <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>	<p><u>Balanced</u></p> <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> <p><u>SARP</u></p> <ul style="list-style-type: none"> <li>▪ \$30,000 in company paid coverage or \$10,000 death benefit for CAW pensioners</li> <li>▪ \$35,000 in company paid coverage or \$10,000 death benefit for COEU pensioners</li> </ul>

## Benefits Provided to Disabled Members

### ***LTD – Income Benefits***

For most union members, the income benefit is a flat amount based on their benefit group. There is a 12 month elimination period to be satisfied before LTD starts. 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 members, the income benefit is based on their Flexible Benefit plan election, with the option of 50% or 66 2/3% 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%. There is a 6 month elimination period to be satisfied before LTD starts. This COLA feature does not apply if the member is covered under the core LTD option only.

For both union and non-union LTD members, 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 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 member contributions. If the union member went on disability before April 1, 2003 and have a covered dependent, they are eligible to receive the STB income benefit, if they die while on LTD.

### ***Medical and Dental Benefits***

In general, disabled members are provided the same benefits as active members.<sup>14</sup> Benefits are paid to the earlier of recovery, death or attainment of age 65. The benefits provided are the benefits in effect at the time the member is disabled.

### ***Life Insurance for Members on LTD***

There is employer-paid basic coverage for life insurance. Premium for the basic life insurance is continued and paid by Nortel.

For union members, 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 member not on LTD to range from \$76,000 to \$87,000 depending on benefit group.

---

<sup>14</sup> Where the benefit program has changed since the member became disabled, the member may be provided benefits under the earlier benefit program or may have been changed to the newer benefit plan. As an example, certain disabled union members are provided with STB coverage.

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

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

## Survivor Benefits

### ***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 members. 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 members or certain retired union members. The monthly benefit is provided to the surviving spouse for 60 months following the death of the member. Monthly benefit amounts range from \$250 - \$825.

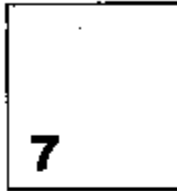
Coverage for two of the union groups is as follows:

- CAW – Effective April 1, 2003, there is no STB for active members or future pensioners. Members 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 members were covered under the non union Flex plan, and STB benefits for current or future pensioners were eliminated.

Current pensioners retain eligibility for the STB coverage if they retired before the dates outlined above and they have an eligible dependent.

Valuation of the Obligations of the Non-Pension Benefits as at December 31, 2010

Nortel Networks Limited



**Employer Certification**

With respect to the Report on the Valuation of the Obligations of the Non-Pension Benefits as at December 31, 2010 for Nortel's Benefit Plans, 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 data provided as outlined in Section 3.
- A copy of the plan documents and of all amendments made up to the date of the valuation were supplied to the actuary.
- All events subsequent to the valuation that may have an impact on the results of the valuation have been communicated to the actuary.

\_\_\_\_\_  
 August 27, 2010  
 Date

\_\_\_\_\_  
 Julie Graffam  
 Signed

\_\_\_\_\_  
 Julie Graffam  
 Name

\_\_\_\_\_  
 Director, HR Operations  
 Title

# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

Mercer (Canada) Limited  
161 Bay Street  
P.O. Box 501  
Toronto, Ontario M5J 2S5  
+1 416 868 2000

**Consulting. Outsourcing. Investments.**