

**APPENDIX H – UNAUDITED, INTERNAL HWT FINANCIAL STATEMENTS DATED  
DECEMBER 31, 2008**

*Financial Statements of*

**NORTEL NETWORKS  
HEALTH AND WELFARE TRUST FUND**

*December 31, 2008*

## Management's Report

The financial statements of the Nortel Networks Health and Welfare Trust Fund have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and to file with the Company's corporate income tax returns. As such, these financial statements do not include all the necessary note disclosures required by Canadian GAAP. The financial statements are expressed in Canadian dollars, have been prepared by management from internal data and are unaudited.



Wasim Haque  
Controller, Canada

Toronto, Ontario  
March 25, 2009

**NORTEL NETWORKS**  
**HEALTH AND WELFARE TRUST FUND**  
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**December 31, 2008**

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**NORTEL NETWORKS**  
**HEALTH AND WELFARE TRUST FUND**  
**Statement of Net Assets Available for Benefits**  
December 31, 2008  
(in thousands of dollars)

	2008	2007
INVESTMENTS (Note 3)		
Bonds and debentures		
Federal	\$ 22,384	\$ 22,284
Government Agencies	10,645	12,993
Provincial/Municipal	51,463	55,457
Corporate	4,518	7,977
	<u>89,010</u>	<u>98,710</u>
Cash (Indebtedness) and short-term investments	2,163	2,719
	<u>91,173</u>	<u>101,429</u>
ACCRUED INTEREST	1,119	1,232
GROUP LIFE INSURANCE SURPLUS ESTIMATE	1,702	-
DUE FROM SPONSORING COMPANY	37,064	40,643
	<u>39,884</u>	<u>41,875</u>
TOTAL ASSETS	131,058	143,304
ACCRUED CLAIMS PAYABLE (Note 2)	(7,741)	(7,507)
NET ASSETS AVAILABLE FOR BENEFITS (Note 4)	<u>\$ 123,317</u>	<u>\$ 135,797</u>

**NORTEL NETWORKS**  
**HEALTH AND WELFARE TRUST FUND**  
**Statement of Changes in Net Assets Available for Benefits**  
Year ended December 31, 2008  
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
<b>OPENING NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$ 135,796</b>	<b>\$ 149,797</b>
<b>INCREASE IN NET ASSETS</b>		
Contributions		
Sponsoring company	173	223
Employees	2,066	1,750
Investment income		
Interest	7,548	6,071
	<u>9,787</u>	<u>8,044</u>
<b>DECREASE IN NET ASSETS</b>		
Claims paid and accrued (Note 4)	20,641	19,956
Administration expenses	324	326
Unrealized Gain and Losses	1,302	1,762
	<u>22,267</u>	<u>22,044</u>
<b>CLOSING NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$ 123,317</b>	<b>\$ 135,797</b>

**NORTEL NETWORKS  
HEALTH AND WELFARE TRUST FUND**

**Notes to the Financial Statements**

December 31, 2008

(all amounts in thousands of dollars)

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**1. DESCRIPTION OF THE FUND**

The Health and Welfare Trust Fund (the "Fund") was established by Nortel Networks Limited (the "Administrator") on January 1, 1980 in order to fund the employee benefits program for all eligible employees of Nortel Networks Limited and its Canadian subsidiaries (collectively, the "Company") under the following plans:

*Reserved plans (plans for which the Fund holds assets)*

- (a) Long-term Disability Plan
- (b) Survivor Income Benefit Plan
- (c) Pensioners' Insurance Plan
- (d) Employee - financed Group Life Plan (Group Life - Part II)

*Paid as Incurred Plans (to be reimbursed by Nortel Networks on an ongoing basis)*

- (e) Dental Plan
- (f) Extended Health Plan
- (g) Group Life Plan (Group Life - Part I)

# NORTEL NETWORKS HEALTH AND WELFARE TRUST FUND

## Notes to the Financial Statements

December 31, 2008

(all amounts in thousands of dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Fund are:

#### (a) Basis of presentation

Except as noted below, these financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements are prepared using the same accounting policies and methods of application as those disclosed in note 2 (a) to the Company's financial statements for the period from inception to December 31, 2008. The disclosures contained herein are incremental to, and should be read in conjunction with, those annual financial statements.

#### (b) Investments

Investments are recorded at market value, established by the closing sale price for a security on the recognized exchange on which it is principally traded. This value, together with accrued interest, approximates their market value.

#### (c) Departure from Canadian GAAP

As of January 1, 2007 the new pronouncements from the Canadian Institute of Chartered Accountants (CICA) in respect of comprehensive income and financial instruments became effective. The application of these new standards resulted in the following insignificant difference between the Fund's statements and Canadian GAAP:

While Canadian GAAP requires use of the effective interest method in calculating the amount of the unamortized bond premium/discount balance, standard practice concerning the Health and Welfare Trust has been to utilize the mark to market method.

#### (d) Accrued claims payable

Accruals are made for the unpaid claims incurred under the various plans to the year-end date. For experience rated plans, such as the Group Life Plans, premium expense is accrued to the year-end date and any experience gain or loss is reflected in the accounts when settled in the following calendar year. Accruals are not made for future payments in respect of claims received under benefit plans entailing a regular series of payments [Note 4(a)].



# NORTEL NETWORKS HEALTH AND WELFARE TRUST FUND

## Notes to the Financial Statements

December 31, 2008

(all amounts in thousands of dollars)

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### 3. INVESTMENTS

The purpose of the Fund is to fund the employee benefits program for all eligible employees of the Company. Management intent and historical practice has been to hold bonds to maturity.

The Fund's performance is subject to market and other risks. The maximum market and credit exposure of the Fund is represented by the fair value of the investments at that point in time. The Fair Values of the Investments are presented on the face of the financial statements. The related cost of investments, as at December 31, 2008 and 2007 are as follow (please see Note 2 (c) for departure from Canadian GAAP).

	<u>2008</u>	<u>2007</u>
<u>Bonds and debentures</u>		
Federal	\$ 14,382	\$ 15,375
Government Agencies	10,500	12,425
Provincial/Municipal	42,505	45,217
Corporate	4,018	6,786
	<u>\$ 71,405</u>	<u>\$ 79,803</u>
Cash (Indebtedness) and short-term investments	\$ 2,163	\$ 2,719

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. An increase in interest rates is likely to decrease the fair value of the Fund's investments. The bonds and debentures have maturities up to June 2031 and coupon rates between 5.25% and 11.25%.

**NORTEL NETWORKS  
HEALTH AND WELFARE TRUST FUND**

**Notes to the Financial Statements**

December 31, 2008

(all amounts in thousands of dollars)

**4. FUTURE BENEFIT PAYMENTS AND RELATED RESERVES**

As at December 31, 2008, the estimated value of obligations under the various benefit plans exceeded the value of reserved assets in the Fund. The funding status of the Reserved Plans at year end is as follows:

(a) Plans requiring a series of benefit payments

Certain plans entail a regular series of benefit payments to a claimant. The estimated present value of the future payments anticipated to be made after December 31, 2008 in respect of claims which commenced before that date and the related value of assets reserved in the Fund are as follows:

	2008		2007	
	Present Value of Future Payments	Market Value of Reserved Assets	Present Value of Future Payments	Market Value of Reserved Assets
Long-term Disability Plan	\$ 100,800	\$ 30,653	\$ 100,893	\$ 42,980
Survivor Income Benefit Plan	22,800	17,056	23,905	17,458
	<u>\$ 123,600</u>	<u>\$ 47,709</u>	<u>\$ 124,798</u>	<u>\$ 60,438</u>

The actual benefit payments are charged against the Fund in the period in which they are paid.

(b) Plan requiring lump sum payments - Pensioners' Insurance Plan

The most recent actuarial valuation of this Plan, dated as at December 31, 2008, indicates that, at that date, the actuarial liabilities amounted to \$134,559 and the market value of the assets amount to \$49,620. Therefore, there exists a funding deficiency of \$84,940. The interest rate actuarial assumption is 7.37% per annum (2007 - 5.6%).

(c) Plan requiring lump sum payments - Group Life - Part II

Employees have the option to purchase additional group life insurance coverage up to age 65. This is fully employee funded, and the market value of the assets reserved at December 31, 2008 totaled \$25,988 (2007 - \$23,421).