

SPECIAL INSERT

FOR 1999 FLEX BENEFITS
PARTICIPANTS - CANADA

1999
no 2000

A Snapshot of Your FLEX Benefits for 2000

A Year of Change

2000 is a year of change on all fronts, as Nortel Networks transforms itself into a new kind of company. If you've been enrolled in FLEX Benefits in the past, you'll see a few changes to what's being offered this year, as well as to how the company/employee cost-share is structured and presented. The changes reflect what our new set of competitors for talent are offering, and what we're learning about what current and potential employees value. They reflect Nortel Networks' philosophy of spreading funding across a broad mix of rewards, including paid time off and assistance with accumulating capital for retirement.

Good News on Cost and Credits

We've upped the target company share of the total cost for health coverage in 2000 to 90% from last year's actual of approximately 88%, to keep us in line with the market. That means that even though the overall cost of Nortel Networks' medical benefits program has risen by 20% and the dental/vision/hearing care coverage by 13%, the cost to you will be the same or lower. Your costs for short-term and long-term disability coverage have decreased as well.

We've changed the rules for part-time employees so that they get the same level of company subsidy as full-time employees. For 2000, all FLEX-eligible employees in Canada will receive FLEX Credits

equal to 0.39% of their FLEX Earnings, and will be funded to the "Comprehensive" level (for employee plus spouse or employee plus children) for medical and dental/vision/hearing care coverage. Employees also have the option of decreasing this level of coverage and getting back FLEX Credits to spend elsewhere.

There has been a change in the way FLEX Credits are allocated. Since the introduction of FLEX, employees who were participating in Nortel benefit plans prior to June 30, 1994 (and certain transferees), have received more Credits than employees joining the program after that date. The purpose of the additional Credits was originally to allow these employees to purchase levels of coverage comparable to what they had before FLEX was introduced.

Since options and costs have changed significantly since 1994, these Credits ("frozen" at a percentage of 1994 salary) were no longer serving their intended purpose. And since about a third of Nortel Networks' population has joined the company since then, the practice of allocating extra Credits to individuals is no longer appropriate.

This year, the funding for these extra FLEX Credits has been put back into the overall program, to benefit all Nortel Networks employees on an equitable basis. Because there is more company funding for FLEX this year, most pre-1994 employees lose nothing, and employees hired since 1994 gain additional FLEX Credits. All employees now get Credits equal to 0.39% of current FLEX Earnings, and the option of receiving rebates in the form of FLEX Credits by opting out of the company-funded level of medical and dental/vision/hearing care.

Changes to Personalized Enrollment Worksheet

In past enrollments, you've seen a menu of options and a flat FLEX Credits figure for you to shop with: an annual \$308 last year for people hired since 1994; more for pre-1994 employees (how much more depended on their FLEX Earnings in 1994). While it was a simple way to present options, it hid the fact that the company actually treats medical and

dental/vision/hearing care coverage quite differently from the other options.

The company analyzes what our competitors in the talent market are offering in the way of health coverage, and determines what level of coverage will keep us competitive. It then funds to that level. For the past three years, a portion of this amount has been translated into an annual \$308 of FLEX Credits, divided by the number of pay periods in the year, and listed at the top of your worksheet.

This year, it's been automatically allocated on your worksheet to the market-competitive level of coverage: that is, Comprehensive coverage for you and your spouse or you and your children. That's why the cost to you for these options is \$0. Your ability to choose has not changed: you get FLEX Credit rebates to spend elsewhere if your personal circumstances are such that a lower level of coverage meets your needs. You can also purchase a higher level of coverage with the additional FLEX Credits that the company is providing to all employees this year (or with your own after-tax dollars, if you run out of Credits).

Because there is more company funding overall for FLEX this year, the bottom line is that if you choose the same options with similar coverage to what you had last year, in most cases the cost to you will be the same or lower this year.

What's Changing for Me?

Here are the highlights of what's changing under FLEX - first a brief summary, then a side-by-side comparison on those elements that are changing. If you're fairly new to FLEX, see the **FLEX Benefits Enrollment Guide** and **Glossary of Terms** for more on these terms and plans.

Long-Term Disability (LTD) Coverage

The cost-of-living adjustment has been removed from the core coverage. Cost-of-living adjustments begin in optional coverage after two years of benefit payments.

Accidental Death & Dismemberment Insurance

Accidental Death & Dismemberment (AD&D) insurance has been moved from the core, company-paid category to the optional category.

Optional AD&D insurance is now available for yourself and your dependents.

Medical Coverage

Each of the medical options has changed somewhat this year, to bring the middle option in line with the market, while continuing to offer employees the choice of more or less coverage. The name of the highest level of coverage has been changed to "Plus," since its former name ("Premium") was causing confusion in some quarters.

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This year, all employees who previously opted out will automatically be enrolled in the Basic level of coverage (and receive the appropriate FLEX Credit rebates) if they don't choose another option or provide evidence that they have coverage elsewhere. This is to ensure that all employees have a basic level of protection in the event of an illness or injury that involves costs substantially above what provincial health plans cover - such as drugs - and that would cause extreme financial hardship to individuals.

You will see some changes to coverage levels, services covered, maximums and deductibles in each of the plans. Both the Basic option and the Comprehensive option now include an out-of-pocket maximum of \$750 for prescription drugs. This means that if you pay \$750 of your own money toward eligible drug claims during the year, the plan will reimburse 100% of any further covered drug costs. Some annual coverage maximums have been established for certain classes of drugs that are not required to treat an illness or injury.

Dental/Vision/Hearing Care Coverage

Dental/vision/hearing care coverage has also changed to bring the middle option in line with the market, and the name of the highest level has been changed to "Plus." The two-year lock-in period for dental/vision/hearing

care coverage that historically has been in place was unpopular and administratively complex, and has been removed. Coverage levels for the Basic and Comprehensive options have been increased to reflect the current year's fee guide.

Health Care Reimbursement Account

There's been a change in the rules covering HCRA's this year. Beginning in 2000, you can no longer carry FLEX Credit account balances from one year into the next. That means that although you will be able to transfer any Credits remaining in your 1999 account into your 2000 account, all Credits in your 2000 account must be used to pay for expenses incurred before December 31, 2000 or they will be forfeited. (You have up until March 31, 2001 to submit these expenses for reimbursement.)

You can, however, carry forward expenses into the next year. If you don't have sufficient FLEX Credits in your year 2000 account to cover expenses incurred between January 1, 2000 and December 31, 2000, you can be reimbursed in the following year out of FLEX Credits allocated to your 2001 HCRA.

Another change is that you can file a claim against your total annual allocation at any time - even though technically you contribute to your HCRA on a per pay period basis. That means, for example, that if you are contributing \$10 in FLEX Credits

in each of 26 pay periods, your total annual allocation to the HCRA will be \$260. If you incur large expenses early in the year, you can immediately receive reimbursement up to your \$260 maximum.

Optional Dependent Life Insurance

More coverage options are now available for your spouse and dependent children.

The Bottom Line

The bottom line is that while the costs of health care coverage in the marketplace continue to rise, there's more company funding for FLEX this year, and all employees will benefit. At the same time, there are changes to the mix of coverage provided and how they're packaged. Nortel Networks' goal is to direct company funding to the benefits that employees value most, while ensuring that optional coverage is available.

We'll continue to monitor what our major competitors for talent are offering, and update our package every year to keep it competitive and attractive.

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Changes for 2000

	Current Nortel FLEX Benefits	Nortel Networks FLEX Benefits Changes for 2000
Short-Term Disability (STD) Coverage		
Your cost	• Your cost for optional STD coverage is 0.077% of your FLEX Earnings	• Your cost for optional STD coverage has decreased to 0.05% of your FLEX Earnings.
Long-Term Disability (LTD) Coverage		
Cost-of-living adjustments	• Cost-of-living adjustments for both core coverage and optional coverage	• Cost-of-living adjustments removed from core coverage • Cost-of-living adjustments remain in optional coverage, and begin after two years of benefit payments.
Your cost	• Your cost for LTD coverage is 0.45% of your FLEX Earnings.	• Your cost for optional LTD coverage has decreased to 0.32% of your FLEX Earnings.
Accidental Death & Dismemberment (AD&D) Coverage		
Core coverage	• Core coverage of one times FLEX Earnings	• No core coverage
Optional coverage for you	• No optional coverage	• Optional coverage available up to five times annual FLEX Earnings subject to overall maximum of \$1,500,000
Optional coverage for your dependents	• No optional coverage	• Optional coverage offered for dependents (spouse and children, spouse only, or children only) • Amount of coverage available is a percentage of the coverage you choose for yourself
Medical Care Coverage		
Coinsurance	• 100% reimbursement under the Comprehensive option	• 90% reimbursement under the Comprehensive option
Overall annual deductible	• \$25 per person, \$50 per family under the Basic option.	• No overall deductible.
Per-prescription copayment	• No per-prescription copayment under the Basic option	• \$5 per-prescription copayment under the Basic option
Prescription drugs	• No annual out-of-pocket maximum for prescription drugs under the Basic and Comprehensive options • Prescriptions for over-the-counter drugs covered under the Premium option	• Maximum out-of-pocket costs of \$750 a year per person for eligible prescription drug expenses. Afterwards, eligible drug expenses reimbursed at 100% under the Basic and Comprehensive options to safeguard against catastrophic events • Prescriptions for over-the-counter drugs not covered under the Plus option

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	Current Nortel FLEX Benefits	Nortel Networks FLEX Benefits Changes for 2000
Medical Care Coverage (continued)		
Tier 1/Tier 2 drugs	<ul style="list-style-type: none"> No distinction made between different therapeutic classes of drugs 	<ul style="list-style-type: none"> Tier 1 and Tier 2 drugs identified Tier 1 drugs are medically necessary, life-sustaining drugs that require a prescription and that relate to illness or injury. Generally, there are no maximums connected to these type of drugs, other than a lifetime maximum for medical care coverage overall, including prescription drugs (except in Quebec). Tier 2 drugs are certain therapeutic drugs that require a prescription and do not relate to illness or injury. Generally, they are considered medically necessary in improving the quality of life. Below is a list of the classes of Tier 2 drugs that are covered and the annual or lifetime maximums. Please note that pre-authorization is required for certain classes of drugs to demonstrate that they are medically necessary. <ul style="list-style-type: none"> Fertility drugs: \$3,000 lifetime maximum Oral contraceptives: \$300 per calendar year/13 cycles per year Drugs for erectile dysfunction: \$1,200 per calendar year (pre-authorization required) Smoking-cessation drugs: \$500 lifetime maximum Anti-obesity drugs: \$1,000 per calendar year (pre-authorization required) Preventive vaccines: \$500 per year
Semi-private hospital room coverage	<ul style="list-style-type: none"> Semi-private room, up to \$50 a day and 50% of excess expenses under the Comprehensive option Private room covered under the Premium option 	<ul style="list-style-type: none"> No hospital coverage under the Basic option 90% of semi-private room rate, up to \$100 a day under the Comprehensive option. Semi-private room only is covered under the Plus option. Private room is no longer covered.
Professional services	<ul style="list-style-type: none"> All professional services (except physiotherapy and acupuncture) <ul style="list-style-type: none"> Maximum of \$250 per person per service under the Basic and Comprehensive options and \$500 per service under the Premium option Physiotherapy and acupuncture: <ul style="list-style-type: none"> Maximum of \$500 per person for these professional services combined under the Basic option, \$750 per person under the Comprehensive option, and \$1000 per person under the Premium option Chiropractic: <ul style="list-style-type: none"> Under the Comprehensive option, you may submit claims as soon as your out-of-pocket expenses exceed \$100 in a calendar year, regardless of provincial plan maximums 	<ul style="list-style-type: none"> All professional services (except physiotherapy and acupuncture): <ul style="list-style-type: none"> Maximum of \$300 per person for all professional services combined under the Basic option Maximum of \$300 per person per service under the Comprehensive option and \$500 per service under the Plus option Physiotherapy and acupuncture: <ul style="list-style-type: none"> Maximum of \$350 per person for these professional services combined under the Basic option, \$750 under the Comprehensive option and \$1,000 under the Plus option Chiropractic: <ul style="list-style-type: none"> Chiropractic covered only after the provincial maximum is exhausted, under the Comprehensive option

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Medical Care Coverage (continued)		
Miscellaneous medical supplies (such as wheelchairs, walkers and other durable medical equipment)	<ul style="list-style-type: none"> Not covered under the Basic option 	<ul style="list-style-type: none"> Covered under the Basic, Comprehensive and Plus options
Chronic/nursing care facility	<ul style="list-style-type: none"> Up to \$10 per day covered under the Comprehensive and Premium options. 	<ul style="list-style-type: none"> No longer covered under any of the medical care coverage options
Private duty nursing	<ul style="list-style-type: none"> No pre-assessment service 	<ul style="list-style-type: none"> All claims will be pre-assessed by a contracted nursing agency to help you co-ordinate services provided: <ul style="list-style-type: none"> Under the provincial plan Under the company plan and Through your spouse's plan (if applicable).
Survivor benefits	<ul style="list-style-type: none"> In the event of your death, coverage ends. 	<ul style="list-style-type: none"> In the event of your death — prior to being retirement eligible, your eligible dependents are covered for a period of 12 months.
Dental/Vision/Hearing Care Coverage		
Two-year lock-in period	<ul style="list-style-type: none"> Two-year lock-in period for Comprehensive or Premium option 	<ul style="list-style-type: none"> No two-year lock-in period for Comprehensive or Plus options
Dental Fee Guide	<ul style="list-style-type: none"> Premium option based on current dental fee guide. Basic and Comprehensive options based on previous year's fee guide For Alberta, the 1997 Dental Fee Guide applies. 	<ul style="list-style-type: none"> Current dental fee guide used for all options. For Alberta, the 1997 Dental Fee Guide will be increased by an appropriate inflation factor (still being finalized).
Dental benefits	<ul style="list-style-type: none"> Preventive care is covered at 80% of the previous year's fee guide under the Basic option. Restorative services are covered at 100% of the previous year's fee guide under the Comprehensive option. 	<ul style="list-style-type: none"> Preventive care is covered at 100% of the current year's fee guide under the Basic option. Restorative services are covered at 90% of the current year's fee guide under the Comprehensive option.
Alternate benefit provision for dental	<ul style="list-style-type: none"> No alternate benefit provision 	<ul style="list-style-type: none"> Where a choice of dental services exists, payment is limited to the least costly professionally acceptable alternative. If you receive more costly treatment, you will be required to pay the additional costs.

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	Current Nortel FLEX Benefits	Nortel Networks FLEX Benefits Changes for 2000
Dental/Vision/Hearing Care Coverage (continued)		
Vision benefits	<ul style="list-style-type: none"> Reimbursement for covered expenses is 80% under the Basic and Comprehensive options, and 100% under the Premium option. 	<ul style="list-style-type: none"> No vision coverage under the Basic option. Vision coverage provided at 90% under the Comprehensive option and at 100% under the Plus option.
Survivor benefits	<ul style="list-style-type: none"> In the event of your death, coverage for your dependents ends. 	<ul style="list-style-type: none"> In the event of your death — prior to being retirement eligible, your eligible dependents are covered for a period of 12 months.
Health Care Reimbursement Account (HCRA)		
Carry forward	<ul style="list-style-type: none"> Unused FLEX Credits in the Health Care Reimbursement Account for 1999 can be carried over to next year to pay for eligible expenses incurred in 2000. Unpaid eligible health expenses incurred in 1999 cannot be carried forward to be paid with FLEX Credits allocated to the HCRA for 2000 plan year. 	<ul style="list-style-type: none"> Unused 1999 FLEX Credits can still be carried over to 2000 to pay for eligible expenses incurred in 2000. Unused FLEX Credits for 2000 in the HCRA are forfeited and cannot be carried forward to 2001. Unpaid eligible health expenses incurred in 2000 can be carried forward to be paid with FLEX Credits allocated to the HCRA for 2001 plan year.
Accumulated vs. allocated	<ul style="list-style-type: none"> You can request reimbursement every quarter (March, June, September and December) and can be reimbursed up to the accumulated amount of your per-pay allocations. 	<ul style="list-style-type: none"> You can request reimbursement every quarter (March, June, September and December) and can be reimbursed up to your total year's elected amount — even if your per-pay allocations have not yet accumulated to the total amount requested for reimbursement.
Optional Dependent Life Insurance		
For your spouse	<ul style="list-style-type: none"> Life insurance for spouse of \$10,000, \$25,000 or \$50,000 Evidence of insurability not required 	<ul style="list-style-type: none"> Life insurance for spouse of \$10,000, \$25,000, \$50,000 or \$100,000, and additional multiples of \$50,000, up to \$500,000 Amounts above \$50,000 require evidence of insurability. For this enrollment period only, amounts above \$100,000 require evidence of insurability.
For your children	<ul style="list-style-type: none"> Life insurance for dependent children of \$10,000 	<ul style="list-style-type: none"> Life insurance coverage for dependent children in units of \$5,000, up to \$25,000

The 'Snapshot of Your FLEX Benefits for 2000' document provides a summary of some of Nortel Networks Corporation (Nortel Networks) benefit plans. It does not supersede the actual plan documents, which in the event of a conflict, will govern the details of benefits coverage in all cases. While the company hopes to continue the benefit plans described in the FLEX Benefits Enrollment Guide, it reserves the right to change, amend, reduce or even terminate any of the plans described in the Guide at any time without prior notice to, or consent by, employees.