

NORTEL NETWORKS™

FLEX 2005 Handbook

00401 ON ABBAY

WE DONT HAVE THE ~~PERS~~
THE 2004 HANDBOOK (NO ONE
SEEMS TO HAVE IT). 2005 IS THE
FIRST TIME, AS FAR AS WE
KNOW, THAT ANY MENTION
WAS EVER MADE ABOUT
"SELF-INSURANCE" AND
I'M CERTAIN IT WAS DUE TO ALBERTA'S ACT

Colour Coding Label
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Etiquette pour Codification

Introduction

Nortel Networks is committed to providing you with a comprehensive and valued set of rewards. Your FLEX Benefits Program (FLEX) is an important piece of the Comprehensive Rewards that contribute to your Nortel Networks experience.

FLEX allows you to match your benefits to your personal needs and family circumstances. It also recognizes that your needs and circumstances – and what you value – may change from year to year, which is why you have an opportunity to re-enroll and make certain changes to your FLEX selections each year.

An ongoing goal of FLEX is to offer meaningful choices at reasonable costs that reflect the level of coverage provided and how much employees and their eligible *dependents* use our plans. Our cost-sharing strategy and our annual enrollment process enable the Company to continue providing a wide variety of benefits at a sustainable cost.

This Handbook has been designed to help you understand how FLEX works. It contains information about key program features, as well as details on the annual enrollment process, tax considerations and claims procedures.

The same information is provided in a user-friendly format on the FLEX 2005 Benefits Site on Services@Work. If you require further assistance regarding FLEX or the enrollment process, check out other related materials on the FLEX 2005 Benefits Site or call Global Employee Services (GES) at ESN 352-4636 or toll-free at 1-800- 676-4636. You also may contact GES via external e-mail at gesna@nortelnetworks.com or internal e-mail at GES, North-America.

Did you know: Most of Nortel Networks FLEX benefits, including short-term disability, long-term disability, medical and dental/vision/hearing care, are self-insured. This means that Nortel Networks plays a role similar to that of an insurance company for its employees. In other words, the Company assumes the risks and pays the claims directly from its net income or retained earnings. The insurance company only provides administrative services such as claims processing.

This Handbook provides a summary of the Nortel Networks Limited (Nortel Networks) FLEX Benefits Program as of January 1, 2005. If there are any discrepancies between the information in this Handbook and the applicable Nortel Networks benefit plan, the actual plan document will, in all cases, govern the details of the benefit coverage and the plan administration. In accordance with each plan and/or program, Nortel Networks reserves the right to amend or discontinue the plan and/or program described in this Handbook at any time without prior

Long-Term Disability Benefits

If you're still disabled (according to the definition of disability) after 26 consecutive weeks, you'll begin receiving long-term disability (LTD) benefits. Nortel's LTD benefits are self-insured, which means the Company pays all LTD claims directly from its net income or retained earnings. Sun Life Financial is the LTD *plan administrator*.

Core LTD Coverage

Nortel provides you with core LTD coverage – at no cost to you – equal to 50% of your pre-disability *FLEX Earnings*.

Optional LTD Coverage

If you want a higher level of LTD coverage, you can purchase optional LTD coverage equal to 70% of your pre-disability *FLEX Earnings*. Note that the benefit amount will be reduced by any income you receive from certain other sources.

If you're currently enrolled in core LTD coverage and want to increase to optional LTD coverage during the *annual enrollment period*, you'll have to provide *evidence of insurability (EOI)*. Your optional LTD coverage will not become effective until the date Sun Life Financial approves your application.

If you're currently enrolled in the optional LTD Plan, you will not have to submit EOI if you want to continue your optional LTD coverage.

Optional LTD Cost

In 2005, the cost of optional LTD coverage will remain unchanged at 0.45% of your *FLEX Earnings*.

Defining Disability

You're considered totally disabled during the first 12 months on LTD when a physician submits objective, clinical documentation (e.g., lab tests, X-rays, medical reports) that proves you're not able to perform the essential functions of your occupation. This means that, during the qualifying period (period of time receiving STD benefits) and the 12-month period immediately following it:

- You have a medical impairment due to injury or disease that prevents you from performing, in any setting, the essential functions of your occupation performed just before you became totally disabled, and
- You cannot carry out these functions with or without reasonable accommodation for the limitations resulting from your disability.

The availability of work for you does not affect the determination of "totally disabled." You must be under the regular care of a physician throughout the LTD period.

After the 12-month period, totally disabled means that you're unable, because of the medical impairment, to perform, in any setting, the essential duties of any occupation (not just your own) for which you have at least the minimum qualifications (or could become qualified) through education, training and experience, and that provides an income equal to or greater than 70% of your pre-disability income, before any reductions for other sources of income.

The medical impairment must be supported by objective medical evidence. The availability of work does not affect the determination.

Recurring Disability

If you have a recurrence of your disability due to the same or related causes within 60 consecutive days of returning to work, it will be considered a continuation of the previous period of disability. You'll be required to submit medical documentation confirming your disability.

If you become disabled for a different cause, or you return to work for longer than 60 consecutive days and become disabled for any cause, you'll be required to begin the disability process again and apply for STD benefits.

LTD Payments

Your LTD payments start at the end of your qualifying period (expiration of 26 weeks under STD), provided you're totally disabled and a claim is received within three months of the end of the qualifying period. The monthly disability benefit is calculated by applying the benefit formula (50% for core LTD coverage or 70% for optional LTD coverage) to your *FLEX Earnings* in force on the date you became totally disabled.

For example, if your monthly *FLEX Earnings* are \$5,000 and you select core LTD coverage, your LTD payment would be \$2,500 (50% x \$5,000). If you select optional coverage, your payment would be \$3,500 (70% x \$5,000).

One important feature of your optional LTD coverage is a cost-of-living adjustment which helps protect your plan against the effects of inflation. Beginning after two years of receiving LTD benefit payments, the full amount of your disability payment will be increased each January by the lesser of 60% of the Consumer Price Index or 6%. This COLA feature does not apply if you are covered under the core LTD option only.

Benefit payments cannot begin and/or will stop if any one of the following occurs:

- You cease to be totally disabled.
- You fail to sign appropriate forms and submit medical proof to Sun Life Financial of continued disability when requested.
- You fail to undergo an independent medical exam and/or functional abilities evaluation if requested by Sun Life Financial.
- You fail to participate in a rehabilitation program approved by Sun Life Financial.
- You engage in any occupation that normally involves remuneration or profit, either accruing to you, to your family or to acquaintances, or in any educational program other than in a rehabilitation program approved by your attending physician and Sun Life Financial.
- You are absent from Canada longer than four months for any reason, unless Sun Life Financial agrees in writing in advance to pay benefits during this period.
- You retire or go on a special leave of absence prior to retiring, whichever occurs first.
- It is the end of the month in which you attain age 65.
- You die.

There is a time limit for appealing the Sun Life Financial decision to decline or terminate a claim. An appeal must be made within three months of such a decision, and must be accompanied by new objective medical evidence.

Other Income Sources

Your monthly core or optional LTD payments will be reduced by payments you receive from:

- Canada/Quebec Pension Plan (C/QPP), excluding benefits for dependent children,
- Workers' Compensation, and
- Disability income from other sources.

Any increase in government disability benefits after payments start doesn't affect the payment received under core or optional LTD coverage.

Core and optional LTD coverage are coordinated with any government and other disability benefits so that your income from all sources combined doesn't exceed 50% (core LTD coverage) or 70% (optional LTD coverage) of your pre-disability *FLEX Earnings*. This doesn't mean you'll receive a lower benefit in total – you'll just receive payments from more than one source.

Disability income from other sources means income that you qualify to receive (or would be eligible to receive if you applied) as a result of your disability. Other income sources include but are not limited to:

- Another group insurance plan (including association group plans),
- An automobile insurance policy, where allowed by legislation, and/or
- Any government plan providing income, excluding benefits for dependent children.

Some other sources of disability income do not reduce your LTD benefits. These include:

- An individual disability income policy,
- A disability attachment to an individual life policy,
- Acts or plans for or on behalf of children,
- An increase in C/QPP benefits after you have begun receiving benefits, and/or
- Benefits from military service.

Right to Subrogate

Subrogation is a legal practice giving Nortel the right to be reimbursed for benefits paid to you if you have been compensated by another person who is responsible for your loss. The intent of subrogation is to limit your benefit payments to the amount you actually lost.

Let's assume a person is responsible for your disability, and is required to compensate you for any of the loss that results from your disability. If Nortel is also compensating you or has compensated you for your loss of income benefits, you may be receiving more income than you earned before you became disabled. In that case, you would reimburse Nortel for the income benefits Nortel has paid. If you receive an amount for future loss of income, that amount will reduce your future loss of income benefits from Nortel.

Subrogation also applies to any medical and/or dental expenses you have been paid as a result of an injury caused by another person. Once you are compensated by the person who is responsible for your loss, you must reimburse Nortel.

If subrogation applies to your claim, you will be required to sign an undertaking to reimburse Nortel for any amount recovered which exceeds 100% of income or expenses. Before agreeing to a settlement of your claim, you must obtain approval.

Rehabilitation/Modified Work

One of the primary objectives of any disability plan is to assist you in getting back on your feet as quickly as possible. Your LTD plan includes this important feature because it has been demonstrated consistently that rehabilitative and modified work programs make a difference in the rate of recovery.

Your LTD benefit payments will be reduced by 50% of any rehabilitation and modified work earnings.

Rehabilitation (rehab) is any program that has a purpose of returning you to remunerative employment that would provide an income equal to or greater than the disability benefit you were receiving when your disability began. Any rehab program must be approved by Sun Life Financial. Rehab programs may involve but are not limited to assessment, counseling, medical or psychological treatment, or a vocational retraining or education program.

Modified work refers to a change to or modification of your job requirements. A modification may mean working reduced hours or performing only some of your regular duties. Availability of modified work is determined by the Company. Your participation in any modified work program must be approved by your attending physician and by Sun Life Financial.

Maximum Benefit from All Sources While on Rehabilitation/Modified Work

Your total disability income from all sources while on rehabilitation/modified work cannot exceed 85% of your pre-disability *FLEX Earnings*.

For example, suppose you have monthly gross pre-disability FLEX Earnings of \$7,143 and have elected optional LTD coverage:

Calculation of LTD Amount

Monthly optional LTD coverage (optional coverage = 70% of \$7,143)	\$5,000
Less CPP disability benefit	\$600
Less rehab earnings (\$3,500 @ 50%)	\$1,750
LTD amount (after integration with other income)	\$2,650

Calculation of 85% Maximum — All Other Income Sources

Gross pre-disability monthly FLEX Earnings	\$7,143
85%	\$6,072

Disability Benefit Plus Other Income Sources

LTD amount (after integration with other income)	\$2,650
CPP payment	\$600
Rehab earnings	\$3,500
Individual policy	N/A
Total from all sources	\$6,750

Difference Between 85% Pre-Disability Earnings and Income From All Sources

$(\$6,750 - \$6,072) =$	\$678
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LTD Monthly Payment

$(\$2,650 - \$678) =$	\$1,972
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Limitations and Exclusions

No LTD benefits are payable for:

- Intentionally self-inflicted injuries or illness, whether you're sane or insane,
- Committing or attempting to commit a criminal offence,
- Insurrection, strike, riots, civil disorder or war, if you are actually participating, or
- Military service in any country.

You're not considered totally disabled unless you're under the active, continuous and medically appropriate care of a physician and are following the treatment prescribed by the physician for that disability.

You're not considered totally disabled due to the use of drugs or alcohol unless you're being actively supervised by and receiving continuous treatment for that disability from a rehabilitation center or an institution designated for that treatment.