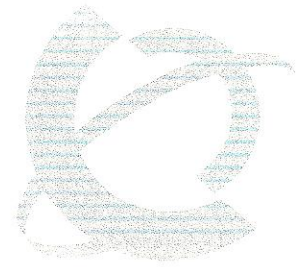


NORTEL



July 21, 2005

Mr. John Doran
35 Cimarron Meadows Bay
Okotoks, AB T1S 2E4

Dear Mr. Doran:

On July 1, 2005 you were sent a letter from Paula Holden which responded to the various questions you had regarding your benefit programs including costs and taxation. It appears that you are not satisfied with that latest response so I will briefly summarize the items separately so that hopefully it will be clearer to you. We would recommend you share a copy of this letter with the person you are working with at Canada Revenue Agency on your tax matters.

Wage Loss Replacement – there is no such benefit plan at Nortel and there never has been. There are no funds being collected or accumulating anywhere at Nortel or our administrators for a benefit by this name, therefore Nortel cannot provide a letter that states anything regarding this.

Long Term Disability (LTD) – you were covered by this program as an active employee – 50% core coverage which did not cost you anything and 20% optional coverage for which you paid a premium when you were active. You are not paying any premiums for this plan any longer and have not been since your LTD benefits commenced. You are now receiving LTD plan benefits on a monthly basis which are taxed as regular income per Canadian tax legislation. All benefits paid from the LTD plan are taxed as regular income whether or not they are paid as part of core coverage or part of optional coverage. The optional portion you paid for in premiums is not tax free to you now that you are receiving the benefit. Canadian tax legislation dictates that only employee-pay-all plans (where the entire premium cost of the program is paid by employees) can be tax-free. Since a portion of your LTD premium is paid by Nortel (in this case the 50% portion) it is not an employee-pay-all plan. The optional coverage you selected is part of the overall disability plan which is funded by Nortel so it is



taxable. As such, all of the LTD benefit (the entire 70%) is taxable to you. The 20% portion of the benefit that you receive is NOT excluded from taxation due to this legislation.

You are entitled to a Cost of Living Adjustment (COLA) for your LTD benefit because you purchased optional coverage. Employees with core coverage only are not entitled to the COLA. Therefore, you receive the COLA because you have selected optional coverage which entitles you to both the additional 20% in income and the COLA. You should receive the COLA and the applicable taxation on the entire (70%) benefit – neither the 20% nor the COLA should be excluded from taxation on your T4.

SunLife produces a T4a for your LTD earnings/income and Nortel produces a T4 for your taxable benefits related to the health plan choices in which you are enrolled.

Life Insurance – You are covered for \$93,000 in Life Insurance which is also a taxable benefit. The amended 2004 T4 you received included the taxable benefit of your Life Insurance as \$569 ($\$93,000 \times .51/1000 \times 12 = \569.16).

Medical/Dental/Vision/Hearing Benefits – Nortel is paying the full cost of these benefits up to the Comprehensive level. Because you elected the Plus level D/V/H coverage (a greater level of coverage), you are paying Nortel annually for the difference between the company provided Comprehensive level and the Plus level of coverage. For 2005, the cost differential of Plus D/V/H for Employee and Family (which was billed to you) was \$355. In 2004 the cost was \$335. D/V/H is not a taxable benefit in Alberta.

Alberta Health Care (ABHC): The social health care program (Alberta Health Care) is taxable by the Province of Alberta so you are responsible for paying tax on the coverage. Nortel is paying your ABHC premium per month, which equates to an annual total being added to your T4 in taxable benefits. The amount of the taxable benefit for your Alberta Health Care coverage for 2004 is \$1056.00 ($\88.00×12).

T4 slips – your T4 slips are correct. Copies of your T4 slips for the past three years have been reviewed and here is an explanation of each amount that applies to your queries.