



## MEMO

**Date:** June 30, 2006  
**To:** Canadian Employees in Receipt of LTD Benefits  
**From:** Global Benefits  
**Subject:** Changes to the Nortel Capital Accumulation and Retirement Program (CARP)  
Effective January 1, 2008

Nortel has announced that it will introduce a number of changes to its Capital Accumulation and Retirement Program (CARP) to take effect on January 1, 2008.

These CARP changes will affect employees at all levels in the U.S. and Canada, with the exception of Traditional program (Part I and Part II) members who, as of December 31, 2007:

- are at least age 55 with 70 points (age plus service), or
- are at least age 60 (regardless of service), or
- have at least 30 years of service (regardless of age).

Traditional program members who meet any of these requirements will continue under the provisions of their current program on January 1, 2008.

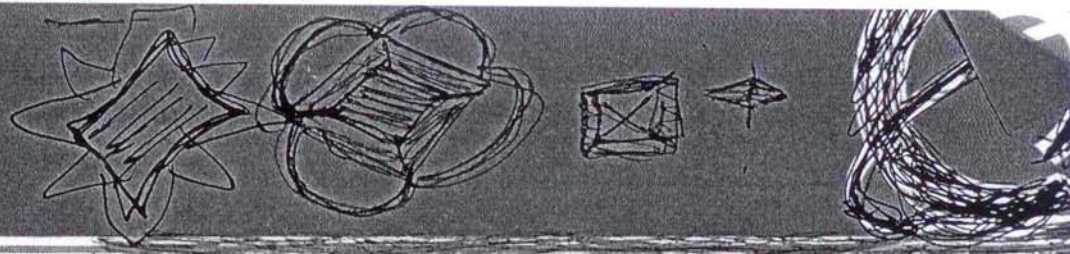
In addition, all CARP members who are receiving Nortel-sponsored Long-Term Disability (LTD) benefits on January 1, 2008 will continue to earn benefits under the provisions of their current program as long as they continue to qualify for LTD benefits from Nortel.

Our records show that you are currently in receipt of LTD benefits from Nortel.

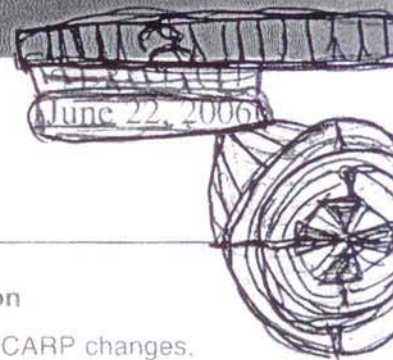
- While you are receiving LTD benefits, you will not be impacted by the CARP changes and will remain in your current CARP program.
- *If you return to active employment with Nortel and/or cease to qualify for LTD benefits*, the enclosed information describes how the CARP changes will affect you.

Please read this information carefully. If you have any questions, you may contact Nortel's Global Employee Services (GES) at 1-919-992-4636 (toll-free 1-800-676-4636). You may also email questions to [NortelCARP@mercer.com](mailto:NortelCARP@mercer.com).





# Capital Accumulation and Retirement Program Changes Effective January 1, 2008 — Balanced Program



Nortel has announced that it will introduce a number of changes to its Capital Accumulation and Retirement Program (CARP) to take effect on January 1, 2008. The CARP currently includes:

- the Traditional program (Part I) and (Part II);
- the Balanced program; and
- the Investor program.

Effective January 1, 2008, the company will make changes to the pension or retirement savings components of all three programs. There will also be changes to the retiree healthcare and life insurance benefits associated with the Traditional program and the Balanced program for members of these programs who do not meet certain age and service conditions as of July 1, 2006.

This newsletter outlines how these changes will affect you as a member of the Balanced program.

**You will continue to participate under the provisions of the current Balanced program through December 31, 2007.** However, as of January 1, 2008, the level of company contributions to the defined contribution pension plan under the Balanced program will be reduced from 4% to 2% of your eligible earnings.

## Where to Find More Information

Additional information about the CARP changes, including Frequently Asked Questions, can be found on [Services@Work](mailto:Services@Work) under "January 1/08 CARP Changes." If you are not actively at work and are unable to access [Services@Work](mailto:Services@Work) or if you have additional questions, you may contact Global Employee Services (GES) at ESN 352-4636 or 1-919-992-4636 (toll-free 1-800-676-4636). You may also email questions to [NortelCARP@mercer.com](mailto:NortelCARP@mercer.com).

Nortel is providing 18 months' advance notice of the CARP changes in order to give you sufficient time to understand and prepare for the changes that will take effect January 1, 2008. Nortel will continue to provide information, modeling tools and resources to assist you in planning for your retirement. We strongly encourage you to take advantage of all of the resources available to you and to learn what you can do to continue to prepare for retirement.

## How is Your Current Balanced Program Changing?

Your current Balanced program includes:

- Defined contribution pension plan (DCPP) – Part III of the Nortel Networks Limited Managerial and Non-Negotiated Pension Plan
- Investment plan
- Retiree healthcare and life insurance.

The following pages outline the changes to your current Balanced program that will take effect on January 1, 2008.

### **Defined Contribution Pension Plan (DCPP)**

Nortel currently contributes an amount equal to 4% of your eligible earnings to your DCPP account. Nortel will continue to contribute at this level through December 31, 2007.

Starting January 1, 2008, Nortel's contributions to your DCPP account will be reduced from 4% to 2% of your eligible earnings.

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### **Eligible Earnings**

The definition of eligible earnings for all plans under the amended Balanced program will remain unchanged on January 1, 2008. Eligible earnings include base salary and, where applicable, overtime, off-shift differential, actual sales compensation and SUCCESS plan incentive payments.

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### **Investment Plan**

Your current investment plan will remain unchanged on January 1, 2008. You may continue to make voluntary contributions and Nortel will continue to match 50% of the first 6% of eligible earnings that you contribute through payroll deductions (for a maximum match of 3%).

For example, if you contribute 4% of your eligible earnings through payroll deductions, Nortel will contribute 2% in matching contributions; if you contribute 6%, Nortel will contribute 3% in matching contributions. You may contribute more than 6% of your eligible earnings (unmatched by Nortel) if you wish, up to the annual contribution limit. (See [Services@Work](mailto:Services@Work) for details.)

As with the current investment plan, you may continue to direct your contributions to one or a combination of three vehicles: a Registered Retirement Savings Plan (RRSP), a Registered Education Savings Plan (RESP) or an After-Tax Savings Vehicle (ATSV). Nortel's matching contributions go to a Deferred Profit Sharing Plan (DPSP).

If you are not already participating in the investment plan, you may enroll and start payroll contributions at any time. If you do not contribute after January 1, 2008, you will not receive Nortel's matching contributions (up to the maximum 3% of your eligible earnings), but you will receive Nortel's automatic 2% contribution to the DCPP.



**What does this mean for Balanced program members?**

As of January 1, 2008, Nortel's maximum contribution under the amended Balanced program will be 5% of your eligible earnings.

	<b>Current Balanced Program</b>	<b>Amended Balanced Program from January 1, 2008</b>
Nortel Automatic Contribution	4% to DCPP account	2% to DCPP account
Nortel Matching Contribution	3% maximum to DPSP account in investment plan (50% on first 6% of eligible earnings you contribute through payroll deductions)	3% maximum to DPSP account in investment plan (50% on first 6% of eligible earnings you contribute through payroll deductions)

You will continue to decide how to invest all contributions to the amended Balanced program, as you do today. When you retire, you will have a number of alternative ways to use your DCPP and investment plan account balances to provide a lifetime retirement income.

**Retiree Healthcare and Life Insurance**

On January 1, 2008, there will also be changes to the retiree healthcare and life insurance benefits provided under the CARP. The effect of these changes on you will depend on your age and service on July 1, 2006.

**If you are age 50 or older with at least five years of service on July 1, 2006,** you will continue to qualify for the company-subsidized retiree healthcare and life insurance benefits associated with the Balanced program if you meet the eligibility requirements for these benefits when you retire from Nortel. (Refer to Services@Work for details.)

**If you are not age 50 or older with at least five years of service on July 1, 2006,** you will no longer be eligible for company-subsidized retiree healthcare benefits upon retirement from Nortel. However, you will be able to purchase comprehensive healthcare coverage under preferred terms through Sun Life Financial. This means that you will not have to provide medical evidence of insurability to obtain coverage, provided you apply within 60 days of your retirement. In addition, if you are at least age 55 with 10 years of service when you retire from Nortel, you will qualify for a \$10,000 non-taxable post-retirement death benefit.

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**Disclaimer**

If there are any discrepancies between the information in this communication and the applicable Nortel benefit plan, the actual plan document will, in all cases, govern the details of the benefit coverage and the plan administration. In accordance with applicable law and each plan and/or program, Nortel reserves the right to further amend or discontinue the plan(s) and/or program(s) described in this communication at any time without prior notice to, or consent by, employees.