

CALCULATING YOUR PLAN BENEFIT

Your pension benefit under the Service Based Program is calculated using a formula that takes into account:

- Your net credited service;
- Your eligible compensation.

Your pension benefit under the Service Based Program equals the greater of:

- (a) Your benefit under the current formula.
- (b) Your benefit under an old formula. For more information about the old formulas see "Appendix C."

Current Formula

Your benefit under the current formula equals the sum of:

Your total eligible compensation during averaging period*	÷	Years in averaging period (five years)	X	Your net credited service as of the end of the averaging period	X	Benefit multiplier 1.4% (.014)
<i>PLUS</i>						
		Total eligible compensation for 1/1/99 through 12/31/03	X	Benefit multiplier 1.4% (.014)		

*Any of your lump sum merit payments and team management incentive compensation plan awards that were paid in December 1997 count as compensation paid after December 31, 1998. This means such payments are not included for purposes of your averaging period, but are included as eligible compensation paid after the applicable averaging period.

Example Using the Current Formula

The following example shows how benefits are calculated under the current formula assuming:

- Your total eligible compensation for January 1, 1994 through December 31, 1998 equals \$290,000 and for January 1, 1993 through December 31, 1997 equals \$200,000.
- You retire on December 31, 2005.
- Your net credited service as of December 31, 1998 was 30 years.
- Your total eligible compensation for January 1, 1999 through December 31, 2003 equals \$250,000 and your total eligible compensation for 1998 is \$50,000.

STEP 1	1994-1998 Averaging Period	1993-1997 Averaging Period
a. Total eligible compensation during averaging period	\$ 290,000	\$ 200,000
b. Divide by years in averaging period	÷ <u>5</u>	÷ <u>5</u>
<i>Average Annual Compensation</i>	\$ 58,000	\$ 40,000
c. Multiply by net credited service as of end of averaging period	x <u>30</u> \$1,740,000	x <u>29</u> \$1,160,000
d. Multiply by benefit multiplier (.014)	x <u>.014</u>	x <u>.014</u>
<i>Subtotal</i>	\$ 24,360	\$ 16,240

STEP 2		
a. Total eligible compensation for net credited service after averaging period	\$ 250,000	\$ 50,000
b. Multiply by benefit multiplier (.014)	x <u>.014</u>	x <u>.014</u>
<i>Subtotal</i>	\$ 3,500	\$ 700

STEP 3

a. Add subtotals from Steps 1 and 2 above for annual pension	\$ 24,360	\$ 16,240
	<u>+ 3,500</u>	<u>+ 700</u>
<i>Total Annual Pension Benefit</i>	\$ 27,860	\$ 16,940
b. Divide total annual pension by 12 to determine monthly pension benefit	<u>÷ 12</u>	<u>÷ 12</u>
<i>Monthly Pension Benefit</i>	\$ 2,321.67	\$ 1,411.67

In this example, your pension is \$2,321.67 per month (the greater of \$2,321.67 or \$1,411.67).

Benefit Calculation Factors

Your pension benefit calculation takes into consideration your net credited service and eligible compensation. Other factors, like an absence or part-time employment, may also affect your benefit calculation.

Net Credited Service

Your net credited service is the continuous number of years, months and days you have worked for a participating company beginning with your most recent date of hire and ending with your retirement or other termination of employment. If you were actively employed by Lucent on October 1, 1996, were actively employed by Lucent on September 30, 2000, and you became an Avaya employee on October 1, 2000, your net credited service also includes your continuous years, months and days of net credited service recognized under the AT&T Pension Plan or AT&T Management Pension Plan as of September 30, 1996. Your net credited service also includes your continuous years, months and days of net credited service recognized under the Lucent Plan if you were employed by Lucent on September 30, 2000, and you became an Avaya employee on October 1, 2000 (or if you transferred from Lucent Technologies to Avaya during the transition period between October 1 and December 31, 2000).

Your net credited service may also include:

- Up to 30 days of an approved leave of absence in any 12-month period, if you are reemployed by the end of that leave, and
- Previous periods of employment that have been bridged under the net credited service bridging rules.

Break in Net Credited Service

You have a break in net credited service whenever you terminate employment. When this happens, your net credited service before the break cannot be added to your net credited service after the break until it is bridged under the following rules:

Bridging Rule	Requirements	When Net Credited Service Is Bridged
Six Months	You must be rehired within six months.	Immediately.
Two Years	You must have at least six months of net credited service before the break and the break must be longer than six months.	After you return to work for at least two continuous years, and if you received a lump sum distribution when you terminated, you must repay the distribution with interest.
Layoff	You are temporarily laid off for six or fewer months and are rehired into a regular position.	Immediately. You will also receive net credited service for the time during the layoff.
	You are temporarily laid off for more than six months but less than three years and are hired into a regular position.	Immediately. You will not receive net credited service for any period of the layoff (including the first six months).
	You are temporarily laid off, rehired in a temporary position and then reclassified into a regular position six or fewer months after your layoff date.	Immediately. You will also receive net credited service for the time during the layoff.
	You are temporarily laid off, rehired in a temporary position and then reclassified into a regular position more than six months but less than three years after your layoff date.	Immediately. You will not receive net credited service for any period of the layoff (including the first six months).

Eligible Compensation

Your eligible compensation includes the following payments before January 1, 2004 made while you were an eligible employee employed by a participating company:

- Your monthly base pay,
- Differentials paid for night tours or for temporary work in a higher classification,

- Lump sum merit wage payments,
- Short-term incentive compensation plan awards,
- Marketing and sales incentive compensation,
- Special project allowances for assignments you began before December 1, 1983, and
- Area differentials.

Any other type of compensation you may receive is not eligible compensation.

If you are on a leave of absence to work for a joint venture company or a non-participating Avaya subsidiary, your eligible compensation is determined basically the same way. There are, however, some special rules that apply in these situations. These rules will be explained to you if you are affected by them.

If You Have an Absence

An absence may affect your eligible compensation calculation. The following rules apply in determining your eligible compensation during a period of absence:

If Your Absence Occurred...	Your Eligible Compensation Is...
During the averaging period, whether or not you earned net credited service for your absence	<ul style="list-style-type: none"> • Projected for the period of your absence using your annual basic rate of pay in effect immediately before your absence, and • Includes any lump sums and differentials actually paid to you during your absence that are eligible compensation.
After the averaging period, and you received net credited service for your absence	<ul style="list-style-type: none"> • Projected for the period of your absence using your annual basic rate of pay in effect immediately before your absence, and • Includes any lump sums and differentials actually paid to you during your absence that are eligible compensation.
After the averaging period, and you did not receive net credited service for your absence	Any eligible compensation lump sums and differentials paid to you during your absence.

Part-Time Employment

If you worked as a part-time employee during the averaging period, your eligible compensation and net credited service used to determine your pension during the averaging period are:

- **Eligible compensation:** The basic pay and short-term incentive compensation awards you would have received during the averaging period if you had been a full-time employee.
- **Net Credited Service:** Your net credited service through the end of the averaging period is prorated for part-time employment. For example, if you worked half days for 30 years, your net credited service would be prorated to 15 years ($30 \times \frac{1}{2} = 15$).