The total debt to total capitalization ratio of Nortel Networks was 47 percent at December 31, 2001, compared to 6 percent at December 31, 2000. The increase in the total debt to total capitalization ratio at December 31, 2001, compared to December 31, 2000, was due to the reduction in retained earnings as a result of the net losses for 2001, and the increase in total debt primarily due to the issuance of $1,800 of 4.25 percent convertible senior notes on August 15, 2001 and $1,500 of 6.125 percent notes on February 8, 2001.

Subsequent to the second quarter of 2001, we completed or announced several transactions to divest portions of our business, primarily related to the continuing transformation of our supply chain from a vertically integrated manufacturing model to a virtually integrated model, and in conjunction with our work plan to divest non-core businesses. Net cash proceeds from these transactions are expected to be approximately $700, of which approximately $500 has been received as at December 31, 2001 and $200 is expected to be realized during the next several quarters. Transactions completed during 2001 included the following:

- We completed a transaction with C-MAC Industries Inc. to divest the majority of our manufacturing activities related to the systems integration, configuration, and testing of our DMS circuit-switching products, previously performed in our system house in Research Triangle Park, North Carolina. We also completed the divestiture of similar manufacturing activities performed in our system house in Monkstown, Northern Ireland. C-MAC will also supply us with systems integration, configuration, and testing services for DMS products, and will assume most of the management functions related to the associated supply chain. The transactions included the sale of associated equipment and inventory.

- We completed a transaction with Amdocs Limited to sell substantially all assets used in our Clarify portfolio, including patents, intellectual property, and trademarks. Under the terms of the agreement, Amdocs also assumed existing customer contracts, as well as certain leased office space.

- We completed a transaction with SCI Systems, Inc. to outsource the remaining printed circuit board assembly activities performed in our system houses in St. Laurent, Quebec and Monkstown, Northern Ireland, including the sale of associated equipment and inventory. In addition, we extended the master supply agreement with SCI, which covers existing printed circuit board assembly manufacturing services performed for us.

Credit ratings

Our credit ratings as at December 31, 2001 were as follows:

Rating agency	Rating on long-term unsecured debt issued or guaranteed by Nortel Networks Limited/ Nortel Networks Corporation	Rating on preferred shares issued by Nortel Networks Limited	Rating on commercial paper issued or guaranteed by Nortel Networks Limited	Last update
Standard & Poor's Ratings Service	BBB–	Global scale BB Canadian scale P-3	A-3	October 3, 2001
Moody's Investor Services, Inc.	Baa2	Ba1	P-2	October 3, 2001

Despite the lowered ratings, our ratings from Standard & Poor's and Moody's remain within investment grade levels. The ratings remain on review for possible future downgrade (Moody's) and negative outlook (Standard & Poor's). There can be no assurance that our credit ratings will not be lowered further, to below investment grade, or that such ratings agencies will not issue adverse commentaries, resulting in higher financing costs under our credit facilities and for other financings generally, and reduced access to the capital markets or our credit agreements. In addition, if our credit ratings are reduced, we will be required to deliver the prescribed security to the lenders in order to access the $1,575 credit facilities under the December 20, 2001 amended credit agreements. Our credit ratings also

At the same time as the filing of the shelf registration statement and base shelf prospectus, Nortel Networks Limited and its financing subsidiary withdrew a shelf registration statement filed with the United States Securities and Exchange Commission under which they were previously eligible to issue up to $1,000 in debt securities and warrants to purchase debt securities.

Credit ratings

Rating agency	Rating on long-term debt issued or guaranteed by Nortel Networks Limited/Nortel Networks Corporation	Rating on preferred shares issued by Nortel Networks Limited	Last update
Standard & Poor's Ratings Service	B	CCC	September 18, 2002
Moody's Investor Services, Inc.	B3	Caa3	November 1, 2002

The ratings remain on negative outlook by Moody's and Standard & Poor's. There can be no assurance that our credit ratings will not be lowered further or that such ratings agencies will not issue adverse commentaries, potentially resulting in higher financing costs and further reduced access to capital markets or alternative financing arrangements. Our credit ratings may also affect our ability, and the cost, to securitize receivables, obtain customer performance bonds and contracts, access the support facility with EDC and/or enter into normal course derivative or hedging transactions.

Debt to capitalization ratio

The total debt to total capitalization ratio of Nortel Networks was 61% at December 31, 2002, compared to 47% at December 31, 2001. The ratio reflects the increase in our deficit, partially offset by the equity offerings on June 12, 2002.

See our "Forward-looking statements" for factors that may impact our liquidity and capital resources.

Off-balance sheet arrangements, contractual obligations and contingent liabilities and commitments

Off-balance sheet arrangements

We currently conduct certain receivable sales and lease financing transactions through special purpose entities and are in the process of assessing the structure of these transactions against the criteria set out in the Financial Accounting Standards Board Interpretation No. 46 – "Consolidation of Variable Interest Entities", or FIN 46.

Our receivable sales transactions are generally conducted either directly with financial institutions or with multi-seller conduits. We do not expect that we will be required to consolidate any of these entities or provide any of the additional disclosures set out in FIN 46.

Certain lease financing transactions are structured through single transaction special purpose entities that currently do not have sufficient equity at risk as defined in FIN 46. In addition, we retain certain risks associated with guaranteeing recovery of between 75 percent and 88 percent of the unamortized principal balance of debt which is expected to represent the majority of the risks associated with the special purpose entities' activities. This percentage will be adjusted over time as the underlying debt matures. Therefore, we expect that unless the existing arrangements are modified prior to July 1, 2003, we will be required to consolidate the assets, liabilities and any non-controlling interests of these special purpose entities effective July 1, 2003. The total assets and total liabilities held by these entities at December 31, 2002 were approximately $176 and $176 respectively.

equal to the total amount of its outstanding obligations and undrawn commitments and expenses under this facility (or any other alternative collateral or arrangements acceptable to EDC) in lieu of the security provided under the security agreements. Accordingly, if the EDC Support Facility is secured by cash or other alternate collateral or arrangements acceptable to EDC, the security and guarantees will also be released in full.

For information related to our outstanding public debt, see “Long-term debt, credit and support facilities” in note 11 of the accompanying consolidated financial statements. For additional financial information related to those subsidiaries providing guarantees as of December 31, 2003, see “Supplemental consolidating financial information” in note 24 of the accompanying consolidated financial statements. For information related to the security pledged, those subsidiaries providing guarantees and the impact of the termination of the Five Year Facilities on the related security agreements, subsequent to December 31, 2003, see “Developments in 2003 and 2004 - Nortel Networks Audit Committee Independent Review; restatements; related matters - Credit facilities and security agreements”. For information related to our debt ratings, see “Credit ratings” below. See “Risk factors/forward looking statements” for factors that may affect our ability to comply with covenants and conditions in our EDC Support Facility in the future.

Shelf registration statement and base shelf prospectus

In 2002, we filed a shelf registration statement with the SEC and a base shelf prospectus with the applicable securities regulatory authorities in Canada, to qualify for the potential sale of up to $2,500 of various types of securities in the U.S. and/or Canada. The qualifying securities include common shares, preferred shares, debt securities, warrants to purchase equity or debt securities, share purchase contracts and share purchase or equity units (subject to certain approvals). As of December 31, 2003, approximately $1,700 under the shelf registration statement and base shelf prospectus has been utilized. As of June 6, 2004, the Canadian shelf registration expired. Owing to matters described above in “Developments in 2003 and 2004 - Nortel Networks Audit Committee Independent Review; restatements; related matters” with respect to the delayed filing of the Reports, we are currently unable to utilize the remaining capacity under the SEC shelf registration statement in its current form. For the same reasons, we are also unable to permit holders of our prepaid forward purchase contracts to exercise certain “early settlement” rights and receive Nortel Networks Corporation common shares in advance of the otherwise applicable August 15, 2005 settlement date. These rights will again become exercisable upon the effectiveness of a registration statement (or a post-effective amendment to the shelf registration statement) filed with the SEC (with respect to the common shares to be delivered) that contains a related current prospectus. Under the terms of the Purchase Contract and Unit Agreement which governs the purchase contracts, we have agreed to use commercially reasonable efforts to have, in effect, a registration statement covering the common shares to be delivered and to provide a prospectus in connection therewith.

Credit ratings

Rating agency	Rating on long-term debt issued or guaranteed by Nortel Networks Limited/Nortel Networks Corporation	Rating on preferred shares issued by Nortel Networks Limited	Last change
Standard & Poor's Ratings Service	B-	CCC-	April 28, 2004
Moody's Investors Service, Inc.	B3	Caa3	November 1, 2002

On April 28, 2004, S&P downgraded its ratings on NNL, including its long-term corporate credit rating from “B” to “B-” and its preferred shares rating from “CCC” to “CCC-”. At the same time, it revised its outlook to developing from negative. Moody's outlook changed to review for potential downgrade from uncertain on April 28, 2004. There can be no assurance that our credit ratings will not be lowered or that these ratings agencies will not issue adverse commentaries, potentially resulting in higher financing costs and reduced access to capital markets or alternative financing arrangements. A reduction in our credit ratings may also affect our ability, and the cost, to securitize receivables, obtain bid, performance related and other bonds, access the EDC Support Facility and/or enter into normal course derivative or hedging transactions.

If NNL's senior long-term debt rating by Moody's returns to Baa2 (with a stable outlook) and its rating by S&P returns to BBB (with a stable outlook), the security and guarantees will be released in full. If the EDC Support Facility is terminated, or expires, the security and guarantees will also be released in full. NNL may provide EDC with cash collateral in an amount equal to the total amount of its outstanding obligations and undrawn commitments and expenses under this facility (or any other alternative collateral or arrangements acceptable to EDC) in lieu of the security provided under the security agreements. Accordingly, if the EDC Support Facility is secured by cash or other alternate collateral or arrangements acceptable to EDC, the security and guarantees will also be released in full.

For information related to our outstanding public debt, see "Long-term debt, credit and support facilities" in note 10 of the accompanying consolidated financial statements. For additional financial information related to those subsidiaries providing guarantees as of December 31, 2004, see "Supplemental consolidating financial information" in note 24 of the accompanying consolidated financial statements. For information related to the security pledged, those subsidiaries providing guarantees and the impact of the termination of the Five Year Facilities on the related security agreements, subsequent to December 31, 2004, see "Developments in 2004 and 2005 - Nortel Audit Committee Independent Review; restatements; related matters - Credit facilities and security agreements". For information related to our debt ratings, see "Credit ratings" below. See "Risk factors/forward looking statements" for factors that may affect our ability to comply with covenants and conditions in our EDC Support Facility in the future.

Shelf registration statement and base shelf prospectus

In 2002, we and NNL filed a shelf registration statement with the SEC and a base shelf prospectus with the applicable securities regulatory authorities in Canada, to qualify the potential sale of up to $2,500 of various types of securities in the U.S. and/or Canada. The qualifying securities include common shares, preferred shares, debt securities, warrants to purchase equity or debt securities, share purchase contracts and share purchase or equity units (subject to certain approvals). As of December 31, 2004, approximately $1,700 under the shelf registration statement and base shelf prospectus has been utilized. As of June 6, 2004, the Canadian base shelf prospectus expired. Owing to matters described above in "Developments in 2004 and 2005 - Nortel Audit Committee Independent Review; restatements; related matters" with respect to the delayed filing of the Reports and the 2005 First Quarter Reports, we are currently unable to utilize, in its current form, approximately $800 of the remaining capacity under the SEC shelf registration statement. After we become current and timely with our SEC filings for a period of twelve months, we will again become eligible for short form shelf registration with the SEC. For the same reasons, we are also unable to permit holders of our prepaid forward purchase contracts to exercise certain "early settlement" rights and receive Nortel Networks Corporation common shares in advance of the otherwise applicable August 15, 2005 settlement date. These rights will again become exercisable upon the effectiveness of a registration statement (or a post-effective amendment to the shelf registration statement) filed with the SEC (with respect to the Nortel Networks Corporation common shares to be delivered) that contains a related current prospectus. Under the terms of the Purchase Contract and Unit Agreement which governs the purchase contracts, we have agreed to use commercially reasonable efforts to have, in effect, a registration statement covering the Nortel Networks Corporation common shares to be delivered and to provide a prospectus in connection therewith.

Credit ratings

Rating agency	Rating on long-term debt issued or guaranteed by Nortel Networks Limited/Nortel Networks Corporation	Rating on preferred shares issued by Nortel Networks Limited	Last change
Standard & Poor's Ratings Service	B-	CCC-	April 28, 2004
Moody's Investors Service, Inc.	B3	Caa3	November 1, 2002

On April 28, 2004, S&P downgraded its ratings on NNL, including its long-term corporate credit rating from "B" to "B-" and its preferred shares rating from "CCC" to "CCC-". At the same time, it revised its outlook to developing from negative. Moody's outlook changed to review for potential downgrade from uncertain on April 28, 2004. There can be no assurance that our credit ratings will not be lowered or that these ratings agencies will not issue adverse commentaries, potentially resulting in higher financing costs and reduced access to capital markets or alternative financing arrangements. A reduction in our credit ratings may also affect our ability, and the cost, to securitize receivables, obtain bid, performance related and other bonds, access the EDC Support Facility and/or enter into normal course derivative or hedging transactions.

The EDC Support Facility does not materially restrict NNL's ability to sell any of its assets (subject to certain maximum amounts) or to purchase or pre-pay any of its currently outstanding debt. The EDC Support Facility can be suspended or terminated if NNL's senior long-term debt rating by Moody's Investors Service, or Moody's, has been downgraded to less than B3 or if its debt rating by Standard & Poor's, or S&P, has been downgraded to less than B–.

In connection with the EDC Amendment, each of the guarantee and security agreements previously guaranteeing or securing the obligations of Nortel and its subsidiaries under the EDC Support Facility and Nortel's public debt securities were terminated and the assets of Nortel and its subsidiaries pledged under the security agreements were released in full. EDC also agreed to provide future support under the EDC Support Facility on an unsecured basis and without the guarantees of NNL's subsidiaries provided that should NNL or its subsidiaries incur or guarantee certain indebtedness in the future above agreed thresholds of $25 in North America and $100 outside of North America, equal and ratable security and/or guarantees of NNL's obligations under the EDC Support Facility would be required at that time.

Effective February 14, 2006, NNL's obligations under the EDC Support Facility became equally and ratably secured with the 2006 Credit Facility and the 2023 Bonds by a pledge of substantially all of the U.S. and Canadian assets of NNC and NNL and the U.S. assets of NNI in accordance with the terms of the EDC Support Facility. NNL's obligations under the EDC Support Facility also were guaranteed by NNC and NNI at such time. These guarantees and security agreements will terminate when the 2006 Credit Facility is repaid.

As a result of the delayed filing of this report with the SEC and other related breaches, EDC has the right to refuse to issue additional support and terminate its commitments under the $750 support facility, or the EDC Support Facility, or require that NNL cash collateralize all existing support. As of April 14, 2006, there was approximately $162 of outstanding support under the EDC Support Facility. We are currently in discussions with EDC under the EDC Support Facility to negotiate waivers related to the Third Restatement and the delay in filing this report and the anticipated delay in filing our 2006 First Quarter Report. Although we expect to reach an agreement with EDC with respect to the terms of an acceptable waiver, there can be no assurance that we will receive such waivers.

For information related to our outstanding public debt, see ''Long-term debt, credit and support facilities'' in note 11 of the accompanying audited consolidated financial statements. For information related to our debt ratings, see ''Credit Ratings'' below. See the ''Risk Factors'' section of this report for factors that may affect our ability to comply with covenants and conditions in our EDC Support Facility in the future.

Shelf registration statement and base shelf prospectus

In 2002, we and NNL filed a shelf registration statement with the SEC and a base shelf prospectus with the applicable securities regulatory authorities in Canada, to qualify the potential sale of up to $2,500 of various types of securities in the U.S. and/or Canada. The qualifying securities include common shares, preferred shares, debt securities, warrants to purchase equity or debt securities, share purchase contracts and share purchase or equity units (subject to certain approvals). As of December 31, 2005, approximately $1,700 under the shelf registration statement and base shelf prospectus had been utilized. As of June 6, 2004, the Canadian base shelf prospectus expired. As a result of the delayed filing of our Exchange Act reports with the SEC due to the multiple restatements and revisions to our and NNL's prior financial results, we and NNL continue to be unable to use, in its current form as a short-form shelf registration statement, the remaining approximately $800 of capacity for various types of securities under our SEC shelf registration statement. We will again become eligible for short-form shelf registration with the SEC after we have completed timely filings of our financial reports for twelve consecutive months. See the ''Risk Factors'' section in this report.

Credit Ratings

Rating Agency	Rating on Long-Term Debt Issued or Guaranteed by Nortel Networks Limited/ Nortel Networks Corporation	Rating on Preferred Shares Issued by Nortel Networks Limited	Last Update
Standard & Poor's Ratings Service . .	B–	CCC–	February 8, 2006
Moody's Investors Service, Inc.	B3	Caa3	February 8, 2006

On June 1, 2005, S&P affirmed its ratings on NNL, including its long-term corporate credit rating at ''B–'' and its preferred shares rating at ''CCC–''. At the same time, the ratings on NNC were removed from credit watch and were assigned a stable outlook. On July 6, 2005, Moody's confirmed the long-term corporate ratings of NNL at ''B3'' and the preferred shares at ''Caa3'' and maintained its negative outlook. The ratings confirmation concluded a ratings review for possible downgrade under effect since April 28, 2004. As a result of the EDC Amendment, on October 27, 2005, both

S&P and Moody's affirmed its long-term corporate credit ratings of NNL at ''B–'' long-term and ''B3'', respectively. As a result of the Proposed Settlement Agreement, on February 8, 2006, S&P revised its outlook from stable to positive and at the same time affirmed its ''B–'' long-term and ''B–2'' short-term corporate credit ratings on NNL. On March 10, 2006, as a result of our announcement of the Third Restatement, S&P placed its ratings on NNL, including the ''B–'' long-term corporate rating, on creditwatch with negative implications, but indicated that, should we complete our filings by the end of April as expected and absent any further negative consequences of the Third Restatement, S&P would likely affirm the ''B–'' rating and assign a positive outlook. There can be no assurance that our credit ratings will not be lowered or that these ratings agencies will not issue adverse commentaries, potentially resulting in higher financing costs and reduced access to capital markets or alternative financing arrangements. A reduction in our credit ratings may also affect our ability, and the cost, to securitize receivables, obtain bid, performance related and other bonds, access the EDC Support Facility and/or enter into normal course derivative or hedging transactions.

Off-Balance Sheet Arrangements

Bid, Performance Related and Other Bonds

We have entered into bid, performance related and other bonds in connection with various contracts. Bid bonds generally have a term of less than twelve months, depending on the length of the bid period for the applicable contract. Performance related and other bonds generally have a term of twelve months and are typically renewed, as required, over the term of the applicable contract. The various contracts to which these bonds apply generally have terms ranging from two to five years. Any potential payments which might become due under these bonds would be related to our non-performance under the applicable contract. Historically, we have not had to make material payments and we do not anticipate that we will be required to make material payments under these types of bonds.

The following table provides information related to these types of bonds as of:

	December 31, 2005	December 31, 2004
Bid and performance related bonds[(a)]	$222	$362
Other bonds[(b)]	44	68
Total bid, performance related and other bonds	$266	$430

(a) Net of restricted cash and cash equivalents amounts of $36 and $36 as of December 31, 2005 and December 31, 2004, respectively.
(b) Net of restricted cash and cash equivalents amounts of $31 and $28 as of December 31, 2005 and December 31, 2004, respectively.

The criteria under which bid, performance related and other bonds can be obtained changed due to the industry environment primarily in 2002 and 2001. During that timeframe, in addition to the payment of higher fees, we experienced significant cash collateral requirements in connection with obtaining new bid, performance related and other bonds. Given that the EDC Support Facility is used to support bid and performance bonds with varying terms, including those with at least 365 day terms, we will likely need to increase our use of cash collateral to support these obligations beginning on January 1, 2007 absent a further extension of the facility.

Any bid or performance related bonds with terms that extend beyond December 31, 2007 are currently not eligible for the support provided by this facility. See ''Liquidity and Capital Resources — Sources of Liquidity — Available support facility'' for additional information on the EDC Support Facility and the related security agreements.

Receivables Securitization and Certain Variable Interest Transactions

In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation, or FIN, No. 46, ''Consolidation of Variable Interest Entities — an Interpretation of Accounting Research Bulletin No. 51, ''Consolidated Financial Statements'', or FIN 46, and in December 2003, the FASB issued a revision of FIN 46 — FIN 46 (Revised 2003), or FIN 46R. FIN 46R provides guidance with respect to the consolidation of variable interest entities, or VIEs. VIEs are characterized as entities in which equity investors do not have the characteristics of a ''controlling financial interest'' or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Reporting entities which have a variable interest in such an entity and are deemed to be the primary beneficiary must consolidate the variable interest entity.

instruments, with individual amounts up to $10, and to extend the maturity date of the EDC Support Facility for an additional year to December 31, 2008.

As a result of the breach of certain provisions of NNL's EDC Support Facility related to the required restatement by NNL of certain of its prior period results, absent a waiver, EDC will have the right to refuse to issue additional support and to terminate its commitments under the Support Facility, subject to a 30 day cure period with respect to certain provisions. On March 9, 2007, NNL obtained a waiver from EDC.

Shelf registration statement and base shelf prospectus

In 2002, we and NNL filed a shelf registration statement with the SEC and a base shelf prospectus with the applicable securities regulatory authorities in Canada, to qualify the potential sale of up to $2,500 of various types of securities in the U.S. and/or Canada. The qualifying securities include common shares, preferred shares, debt securities, warrants to purchase equity or debt securities, share purchase contracts and share purchase or equity units (subject to certain approvals). As of December 31, 2006, approximately $1,700 under the shelf registration statement and base shelf prospectus had been utilized. As of June 6, 2004, the Canadian base shelf prospectus expired. As a result of the delayed filing of our 2005 Form 10-K/A, NNL's 2005 Form 10-K and the 2006 First Quarter Reports with the SEC due to the Third Restatement, we and NNL continue to be unable to use, in its current form as a short-form shelf registration statement, the remaining approximately $800 of capacity for various types of securities under our SEC shelf registration statement. We will again become eligible for short-form shelf registration with the SEC after we have completed timely filings of our financial reports for twelve consecutive months.

Credit Ratings

Rating Agency	Rating on Long-Term Debt Issued or Guaranteed by Nortel Networks Limited/Nortel Networks Corporation	Rating on Preferred Shares Issued by Nortel Networks Limited	Last Update
Standard & Poor's Ratings Service	B−	CCC−	June 16, 2006
Moody's Investors Service, Inc.	B3	Caa3	September 26, 2006

On June 16, 2006, S&P revised its rating on NNL from credit watch with negative implications to stable outlook. At the same time, S&P affirmed its B− long-term credit rating and assigned its B− senior unsecured debt rating to the Notes with an outlook of stable. On September 26, 2006, Moody's affirmed the B3 Corporate Family Rating on Nortel, B3 rating on the Notes and NNL's stable outlook. There can be no assurance that our credit ratings will not be lowered or that these ratings agencies will not issue adverse commentaries about us or NNL, potentially resulting in higher financing costs and reduced access to capital markets or alternative financing arrangements. A reduction in our credit ratings may also affect our ability, and the cost, to securitize receivables, obtain bid, performance related and other bonds, access the EDC Support Facility and/or enter into normal course derivative or hedging transactions.

Off-Balance Sheet Arrangements

Bid, Performance Related and Other Bonds

We have entered into bid, performance related and other bonds in connection with various contracts. Bid bonds generally have a term of less than twelve months, depending on the length of the bid period for the applicable contract. Performance related and other bonds generally have a term of twelve months and are typically renewed, as required, over the term of the applicable contract. The various contracts to which these bonds apply generally have terms ranging from two to five years. Any potential payments which might become due under these bonds would be related to our non-performance under the applicable contract. Historically, we have not had to make material payments and we do not anticipate that we will be required to make material payments under these types of bonds.

The waiver was valid only for the breach resulting from the restatement of NNL's results covered in NNC's press release dated March 1, 2007.

Effective December 14, 2007, NNL and EDC amended the EDC Support Facility to (i) extend the termination date of the facility to December 31, 2011, (ii) provide for automatic annual renewal of the facility each following year, unless either party provides written notice to the other of its intent to terminate, (iii) increase the maximum size of individual bonds supported under the committed portion of the facility from $10 to $25, (iv) provide support for individual bonds with expiry dates of up to four years and (v) limit the restriction on the ability to secure indebtedness to apply only to NNL and NNI and Nortel Networks Capital Corporation at any time that NNL's senior long-term debt is rated as investment grade.

Short-form registration of securities

In June 2007, we again became eligible to make use of short-form registration statements for the registration of our securities with the SEC. Although we filed a shelf registration statement with the SEC in 2002, the information contained in that shelf-registration statement is not current. In order to make use of a short-form registration statement for issuance of securities, we would need to either update the information contained in that shelf registration statement or file a new shelf registration statement and a new base shelf prospectus containing current, updated information.

Credit Ratings

	Moody's	S&P
NNL's Corporate Family Rating / Corporate Credit Rating	B3	B−
NNL's $2.0B High-Yield Notes	B3	B−
NNC's $1.8B Convertible Notes due 2008	B3	B−
NNC's $1.15B Convertible Notes due 2012 and 2014	B3	B−
NNL's $200 Notes due 2023	B3	CCC
Nortel Networks Capital Corporation's $150 Notes due 2026	B3	CCC
NNL Preferred Shares:		
Series 5	Caa3	CCC−
Series 7	Caa3	CCC−

On March 22, 2007, S&P affirmed its B− long-term credit rating on NNL with an outlook of stable. On March 22, 2007, Moody's affirmed the B3 Corporate Family Rating on our and NNL's stable outlook. There can be no assurance that our credit ratings will not be lowered or that these ratings agencies will not issue adverse commentaries about us or NNL, potentially resulting in higher financing costs and reduced access to capital markets or alternative financing arrangements. A reduction in our credit ratings may also affect our ability, and the cost, to securitize receivables, obtain bid, performance related and other bonds, access the EDC Support Facility and/or enter into normal course derivative or hedging transactions.

Off-Balance Sheet Arrangements

Bid, Performance Related and Other Bonds

During the normal course of business, we provide bid, performance, warranty and other types of bonds, which we refer to collectively as bonds, via financial intermediaries to various customers in support of commercial contracts, typically for the supply of telecommunications equipment and services. If we fail to perform under the applicable contract, the customer may be able to draw upon all or a portion of the bond as a remedy for our failure to perform. An unwillingness or inability to issue bid and performance related bonds could have a material negative impact on our revenues and gross margin. The contracts which these bonds support generally have terms ranging from one to five years. Bid bonds generally have a term of less than twelve months, depending on the length of the bid period for the applicable contract. Performance-related and other bonds generally have a term of twelve months and are typically renewed, if required, over the term of the applicable contract. Historically, we have not made, and we do not anticipate that we will be required to make, material payments under these types of bonds.

Agreement executed on November 21, 2006. As a result NNL guarantees NNUK's performance under the November 21, 2006 Funding Agreement. The table also does not include an intercompany guarantee agreement whereby NNL indemnifies the trustees of the U.K. Fund on the insolvency of NNUK and consequent windup of the U.K. plan.

Acquisitions

As a result of the acquisitions made in 2008, we may be liable for future cash obligations of up to $17 based on the achievement of future business milestones. See "Other Significant Business Developments—Acquisitions and Divestitures" in this section of this report for additional information. This amount has been classified as "Thereafter" as we are unable to reasonably project the ultimate amount or timing of settlement of these contingent payments.

Other long-term liabilities reflected on the balance sheet

Other long-term liabilities reflected on the balance sheet relate to asset retirement obligations and deferred compensation accruals. Payment information related to our asset retirement obligations has been presented based on the termination date after the first renewal period of the associated lease contracts. Payment information related to our deferred compensation accruals has been presented based on the anticipated retirement dates of the employees participating in the programs.

Future Sources of Liquidity

Available support facility

In 2003, NNL entered into the $750 EDC Support Facility with EDC. NNL's obligations under the EDC Support Facility are guaranteed by NNI. The EDC Support Facility's termination date is December 31, 2011, subject to automatic annual renewal of the facility each following year, unless either party provides written notice to the other of its intent to terminate.

As of December 31, 2008, the EDC Support Facility provided for up to $750 in support including:

- $300 of committed revolving support for performance bonds or similar instruments with individual amounts of up to $25, of which $125 was outstanding; and
- $450 of uncommitted revolving support for performance bonds or similar instruments and/or receivables sales and/or securitizations, of which $63 was outstanding.

The EDC Support Facility provides that EDC may suspend its obligation to issue NNL any additional support if events occur that could have a material adverse effect on NNL's business, financial position or results of operation. In addition, the EDC Support Facility can be suspended or terminated if an event of default has occurred and is continuing under the EDC Support Facility or if NNL's senior unsecured long-term corporate debt rating by Moody's has been downgraded to less than B3 or if its debt rating by S&P has been downgraded to less than B-.

On December 15, 2008, following a downgrade by Moody's of NNC's corporate family rating to Caa2, NNL executed a standstill and waiver agreement with EDC.

Effective January 14, 2009, due to the Creditor Protection Proceedings, NNL entered into an agreement with EDC to permit continued access by NNL to the EDC Support Facility for an interim period to February 13, 2009, for up to $30 of support based on our then estimated requirements over the period. On February 10, 2009, EDC agreed to extend this interim period to May 1, 2009. This support is secured by a charge on the Canadian Debtors' assets. See the Properties section of our 2008 Annual Report. In this agreement, EDC also agreed to waive certain conditions and temporarily refrain from acting with respect to certain events of default relating to the Creditor Protection Proceedings and certain credit rating events. We and EDC continue to work together to see if a longer term arrangement, acceptable to both parties, can be reached.

Credit Ratings

On November 10, 2008, S&P placed NNL's Corporate Credit Rating on CreditWatch with negative implications and at the same time revised the ratings on NNL's preferred shares to C from CCC-. On December 15, 2008 Moody's downgraded NNC's Ratings to Caa2 from B3 and the Rating on NNL's preferred shares to Ca from Caa1. On January 14, 2009 S&P lowered NNL's Corporate Credit Rating to D from B- and at the same time lowered the ratings on NNL's preferred shares to D from C. On January 15, 2009 Moody's downgraded NNC's Ratings to Ca from Caa2 and the rating on NNL's preferred shares to C from Ca and following these rating actions has withdrawn all ratings.

Off-Balance Sheet Arrangements

Bid, Performance-Related and Other Bonds

During the normal course of business, we provide bid, performance, warranty and other types of bonds, which we refer to collectively as bonds, via financial intermediaries to various customers in support of commercial contracts, typically for the supply of