

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:

<b>Rating agency</b>	<b>Rating on long-term unsecured debt issued or guaranteed by Nortel Networks Limited/ Nortel Networks Corporation</b>	<b>Rating on preferred shares issued by Nortel Networks Limited</b>	<b>Rating on commercial paper issued or guaranteed by Nortel Networks Limited</b>	<b>Last update</b>
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