

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**

	<u>Moody's</u>	<u>S&amp;P</u>
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.