

Nortel Networks to Acquire Qtera for up to US\$3.25 Billion, Extends Optical Internet Leadership With Ultra-Long-Reach Capabilities

Submitted by: Pleon

Wednesday, 15 December 1999

Disruptive Technology to Bring Six-Fold Increase in Distance Light Travels in Optical Networks, and Deliver Improved Internet Performance And Economics

Brampton, Ont.- Nortel Networks* [NYSE/TSE: NT] announced today a definitive agreement to acquire Qtera Corporation, a privately-held company that produces ultra-long-reach optical networking systems, for up to US\$3.25 billion in Nortel Networks common shares, a portion of which is contingent upon Qtera achieving certain business objectives. The acquisition of this leading edge start-up gives Nortel Networks first mover advantage through breakthrough optical technology that delivers improved Internet performance and economics.

Qtera has developed technology that enables optical signals to be sent as far as 4000 kilometres or 2500 miles in purely optical form, providing advantages in cost, reliability, and scalability to long-range networks. Qtera's solutions operate at 10 Gigabits per second (Gbps), the line rate used by leading-edge high-performance Internet backbone networks.

"The surge in Internet usage and eBusiness makes the delivery of the high-performance, all-optical Internet essential," said John Roth, president and chief executive officer, Nortel Networks. "The addition of Qtera's capabilities enhances Nortel Networks ability to deliver to customers the greatest capacity, the highest speed and, now, the longest reach Optical Internet solutions in the market."

"The combination of Nortel Networks' global reach and market leadership in the Optical Internet and our expertise in ultra-long-reach optical networking creates a truly formidable leader in the all-optical Internet space," said Fahri Diner, president and chief executive officer, Qtera. "Our common commitment to a high-performance Internet will create tremendous value for our customers, partners and employees."

On today's Internet, distance is not a restriction. Internet users trigger information flow with a simple click of a mouse between computers thousands of miles apart. Transmitting this flow of information as light, Qtera's technology makes this process much more efficient and cost-effective, eliminating up to 75 percent of optical-electrical-optical conversions. Data sent in the form of light through optical networks fade over distance, requiring periodic conversions to electrical form to boost the signal before re-conversion to light. Frequent optical-electrical-optical conversions introduce significant additional costs to today's networks, in terms of capital, space, reliability, and performance.

Combined with Nortel Networks leading Optical Internet solutions, Qtera's technology positions Nortel Networks to offer the industry's most powerful optical solutions in reach, bandwidth, speed, and manageability, while continuing to reduce costs for our customers. The Qtera technology brings Nortel Networks solutions closer than ever to the all-optical Internet.

Qtera's solutions were successfully trialed by Qwest Communications, which is also a customer of Nortel Networks.

Qtera has its headquarters and about 140 employees in Boca Raton, Florida, and about 30 employees in Richardson, Texas. Upon completion of the acquisition, Qtera will become a wholly-owned subsidiary of Nortel Networks, with its operations remaining in those locations. Qtera president and chief executive officer Fahri Diner will continue to lead this business as president, reporting to Mike Unger, president, Optical Networks, Nortel Networks.

The transaction, which is expected to close in the first quarter of 2000, is subject to customary regulatory approvals and the approval of the Qtera shareholders, and is expected to be neutral to Nortel Networks earnings per share in calendar year 2000 and accretive in calendar year 2001 (excluding acquisition-related charges).

The number of common shares of Nortel Networks to be issued shall be determined based on the average price of Nortel Networks common shares during a specified period prior to closing and shall not be greater than 48 million or less

than 30 million. For example, based on a US\$88 price per Nortel Networks common share, the transaction would result in Nortel Networks issuing approximately 37 million common shares for all the shares of Qtera on a fully diluted basis.

Nortel Networks is the world leader in the Optical Internet. More than 75 percent of North American Internet backbone traffic travels across Nortel Networks systems. In 1999, Nortel Networks set the standards for speed with its 80 Gbps line rate OPTera technology, and in bandwidth with the OPTera 1600G, which transmits 160 colours of light across a 10 Gbps systems, for total capacity of 1.6 terabits per second (Tbps).

Nortel Networks is a global leader in telephony, data, wireless and wireline solutions for the Internet. The Company had 1998 revenues of US\$17.6 billion and serves carrier, service provider and enterprise customers globally. Today, Nortel Networks is creating a high-performance Internet that is more reliable and faster than ever before. It is redefining the economics and quality of networking and the Internet through Unified Networks* that promise a new era of collaboration, communications and commerce. Visit us at www.nortelnetworks.com

Qtera Corporation, headquartered in Boca Raton, Fla., is a privately held company dedicated to the development of photonic networking solutions for telecommunications service providers. Qtera's solutions provide a greatly simplified, purely photonic backbone for the Optical Internet - free of bandwidth restrictions and spatial boundaries. Qtera's scalable architecture enables unparalleled performance, rapid wavelength provisioning and restoration, and most importantly, lowest cost survivable bandwidth. Founded in 1998, Qtera is backed by such leading venture firms as Battery Ventures, Mayfield Fund and Oak Investment Partners. In addition to its headquarters in the heart of Photon Beach, South Florida's growing community of high-tech companies, Qtera has offices in the Telecom Corridor of Richardson, Texas. At present, the company has more than 170 employees. For more information on how Qtera is building the Backbone of the Optical Internet, please visit the company's website at www.qtera.com.

Certain information included in this press release is

forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price and product competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Nortel Networks to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; unanticipated impact of Year 2000 issues; and the impact of consolidations in the telecommunications industry. For additional information with respect to certain of these and other factors, see the reports filed by Nortel Networks with the United States Securities and Exchange Commission. Nortel Networks disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Qtera, "Backbone of the Optical Internet" and Photon Beach are trademarks of Qtera Corp.

* Nortel Networks, the Nortel Networks logo, the Globemark, Unified Networks, and How the world shares ideas are trademarks of Nortel Networks.

99789

Take part in our web cast at
www.nortelnetworks.com/pressconf121599

Or visit Nortel Networks' website at www.nortelnetworks.com
and Qtera's website at www.Qtera.com.