



**7 October 2002**

**Bookham Technology plc**

**Combination with Nortel Networks'  
Optical Transmitter and Receiver and Optical Amplifier Businesses**

Oxfordshire, UK: Bookham Technology plc (LSE: BHM, Nasdaq: BKHM) ("Bookham" or the "Company"), a leading provider of integrated optical components and subsystems for fibre optic communication networks, announced today that it has entered into an agreement to acquire the Optical Transmitter and Receiver and Optical Amplifier Businesses of Nortel Networks Corporation ("Nortel") (the "Combination"). As part of the Combination, Nortel Networks Limited, a subsidiary of Nortel, has also agreed to enter into a US\$120.0 million (£76.5 million)\* supply agreement with Bookham. The Combination is subject, inter alia, to approval by Bookham's shareholders at an Extraordinary General Meeting to be held on 5 November 2002 ("EGM").

The Company believes that the economies of scale generated by the creation of the new enlarged group will facilitate increased cost efficiencies. Furthermore, as part of an independent entity, there will be greater opportunity for the components generated from the Optical Transmitter and Receiver and Optical Amplifier Businesses to be sold to other leading systems manufacturers who may not previously have purchased components from Nortel, as Nortel is one of their competitors. Finally, by integrating the Optical Transmitter and Receiver and the Optical Amplifier Businesses' products with Bookham's own active and passive solutions, Bookham will take a significant step towards becoming a leading worldwide provider of optical components, modules and sub-systems and thus towards meeting its customers' desire to have fewer suppliers offering a broader range of products.

Bookham will acquire the assets of the Optical Transmitter and Receiver and Optical Amplifier Businesses excluding cash balances and accounts receivable, but including inventory valued at £195.7 million on a gross basis and £36.5 million on a net basis (after reserves for excess and obsolescence). Bookham has purchased these assets free from trade debtors and all other indebtedness. Substantially all of the employees of the Optical Transmitter and Receiver and Optical Amplifier Businesses will be joining Bookham as part of the Combination.

- The consideration will be the issue to Nortel of:
  - 61,000,000 new ordinary shares of Bookham ("Ordinary Shares") (which, immediately following completion of the Combination ("Completion"), would represent approximately 29.78 per cent of the issued share capital of the Company);
  - Warrants over 9,000,000 new Ordinary Shares of Bookham (the "Warrants");
  - 3 – 5 year Loan Notes to the value of US\$50 million (£31.9 million).
- Bookham will also pay to Nortel on Completion US\$10.0 million (£6.4 million) for restructuring expenses incurred by Nortel in connection with the Combination.

---

\* the exchange rate used throughout is £1: \$1.5686

- Nortel Networks Limited has agreed to purchase a minimum of US\$120.0 million (£76.5 million) of optical components and related services from Bookham over a period of six quarters from completion of the Combination ("Completion"). In addition, over the three years following Completion, Nortel Networks Limited has agreed to purchase from Bookham agreed percentages on a product-by-product basis of its total requirements for the optical components products that are currently being supplied to Nortel by the Optical Transmitter and Receiver and Optical Amplifier Businesses, subject to certain performance criteria.
- Based on the mid-market closing price of the Ordinary Shares of Bookham on 4 October 2002, the consideration of the Combination is valued at approximately US\$111.6 million (£71.2 million), assuming full exercise of the Warrants and including the payment on Completion of US\$10 million restructuring expenses incurred by Nortel in connection with the Combination but excluding the interest payable on the Loan Notes.
- Due to the size of the Optical Transmitter and Receiver and Optical Amplifier Businesses relative to Bookham, this Combination is classified under The UK Listing Rules of the UK Listing Authority as a reverse takeover. Therefore, as required by The UK Listing Rules, Bookham has requested that listings of and dealings in its ordinary shares be temporarily suspended pending publication of the listing particulars and circular in relation to the Combination. The Company expects that this suspension will be lifted on 8 October 2002.
- Nortel has agreed, for so long as it or any members of the Nortel Group of companies, holds five per cent or more of the issued share capital of Bookham, the holders of such Ordinary Shares will abstain, except in limited circumstances, from exercising the voting rights attached to the Ordinary Shares to ensure that Bookham is capable of carrying on its business independently of Nortel. In addition, Nortel will not have any board representation following the Combination.
- The directors of Bookham consider the Combination and the resolutions to be proposed at the EGM to be in the best interests of the Company and its shareholders as a whole and unanimously recommend shareholders to vote in favour of the Combination at the EGM. Dr. Andrew Rickman, Chairman of Bookham, and his family, its largest shareholder, has, together with the other Directors of Bookham who together hold 29,496,878 Ordinary Shares (representing approximately 20.5 per cent of the current issued share capital of the Company) undertaken to vote in favour of the resolutions to be proposed at the EGM. In addition the company has received an irrevocable undertaking to vote in favour of the resolutions to be proposed at the EGM in respect of 12,891,000 Ordinary Shares (representing approximately 9.0 per cent of the current issued share capital of the Company).

Nortel is a leading global supplier of vertically integrated optical amplifiers, transmitters and receivers to telecom-oriented optical networking vendors. In the six months to 30 June 2002, the Optical Transmitter and Receiver and Optical Amplifier and Businesses achieved sales of £40.8 million. The Optical Transmitter and Receiver and Optical Amplifier Businesses are located principally in Paignton, UK, in Ottawa, Canada, and in Zurich, Switzerland. Substantially all of the employees of the Optical Transmitter and Receiver and Optical Amplifier Businesses will be joining Bookham as part of the Combination.

Giorgio Anania, President & Chief Executive Officer of Bookham Technology plc, commented, "We believe that the optical communications market has good long-term potential, though market conditions are currently depressed and are likely to remain depressed for the next several quarters. In this environment, having scale and technology is critical to achieving profitability in the optical components sector, as it is characterised by high fixed manufacturing costs, such as opto-electronic semiconductor fabrication facilities, and by heavy R&D investment. In particular in this environment, our customers are seeking relationships with fewer optical components suppliers who

have a lower-cost position, a broader product portfolio and who can deliver next generation technologies.

“Operationally, this combination is particularly beneficial. A significant portion of the entity we are combining with is located in the UK, in close proximity to our headquarters and manufacturing operations. Nortel has always been one of our largest customers, so the working relationships are already excellent. Through the acquisition and ongoing integration of the optical components business of Marconi in February this year, we have demonstrated that we are able to integrate two substantial businesses quickly and efficiently. We believe this will also be the case in this combination.

“With this combination, we are setting ourselves clear targets for profitability to be achieved through continued focus on cost reductions, consolidation of operations and revenue growth, increased scale and the ability to sell the products of the combined company to a larger customer base.”

Brian McFadden, President, Optical Networks, Nortel Networks, added,

“We are extremely pleased and excited about this transaction between Bookham and Nortel Networks. Our relationship with Bookham will enable Nortel Networks to maintain access to high performance, cost effective optical components from a world-class supplier. We see this deal as working well for all parties concerned, strengthening both companies’ positions in our market place.”

Morgan Stanley is acting for Bookham as financial adviser and sponsor in connection with the Combination.

The Company will announce its third quarter 2002 results on 29 October 2002 through its normal scheduled press release and conference call. The Company expects to report revenues of approximately £7.5 million, representing approximately a 6 per cent sequential increase over revenues in the second quarter, and significantly reduced cash outflow for the quarter.

-ends-

An analyst briefing will be held at Financial Dynamics (Holborn Gate, 26 Southampton Buildings, London WC2A 1PB) at 10.00 a.m. UK time today and a conference call is scheduled for 2.30 p.m. UK time today (call in details, UK: +44 20 8240 8240, US: +1 800 513 7968).

The conference call will be available approximately one hour after the call finishes on replay number UK: +44 20 8288 4459 (pin code 204602) and US: +1 703 736 7336 (pin code 204602) and via audiocast [www.bookham.com](http://www.bookham.com).

This announcement should be read in conjunction with the further details set out below.

## Enquiries

Giorgio Anania Steve Abely Sharon Ostaszewska	Bookham Technology plc	+44 20 7831 3113 today +44 (0) 1235 837000 from 8 October 2002
Andrew Bell Clemens Buss	Morgan Stanley	+44 (0) 20 7425 8000

Bookham Technology (LSE: BHM; Nasdaq: BKHM) designs, manufactures and markets integrated optical components and modules using high volume production methods. With three disruptive semiconductor technologies that offer intrinsic cost reduction: patented silicon-based ASOC, Gallium Arsenide and Indium Phosphide, the company provides end-to-end networking solutions that offer higher performance and greater systems capability to communications network system providers.

The Company, whose securities are traded on NASDAQ and the London Stock Exchange, is headquartered in the UK, with offices and manufacturing facilities in Abingdon and Caswell, in the UK, and has additional offices in US, France, Italy, Japan and China. The company employs approximately 750 people world-wide.

More information on Bookham Technology is available at [www.bookham.com](http://www.bookham.com)  
Bookham and ASOC are registered trademarks of Bookham Technology plc

*Statements made in this announcement include certain forward-looking statements that involve risks and uncertainties. Important factors that could cause actual results to differ from those indicated by such forward-looking statements include, among others, uncertainties relating to demand for the group's products, demand for optical components generally and overall future growth in the market for optical components, issues surrounding integration of the Optical Transmitter and Receiver and Optical Amplifier Businesses being acquired from Nortel Networks Corporation, uncertainties relating to the group's investment in, and reorganisation of, its manufacturing capacity, production equipment and personnel and related impact on profitability, quarterly variations in financial results, manufacturing capacity yields and inventory, intellectual property issues and other uncertainties that are discussed in the "Risk Factors" of the listing particulars of the Company which are to be published in connection with the Combination and which will be filed with the United Kingdom Listing Authority and the Registrar of Companies in England and Wales and which will be submitted to the Securities and Exchange Commission. Forward-looking statements represent the group's estimates as of the date made, and should not be relied upon as representing the group's estimates as of any subsequent date. While the group may elect to update forward-looking statements in the future, it disclaims any obligation to do so.*

*Morgan Stanley is acting exclusively for Bookham and no-one else and will not be responsible for providing to anyone other than Bookham the protections afforded to clients of Morgan Stanley or for providing advice in relation to the proposed transaction. Morgan Stanley can be contacted at 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom.*

## **Bookham Technology plc**

### **Combination with Nortel Networks' Optical Transmitter and Receiver and Optical Amplifier Businesses**

#### **Further Details to the Combination**

##### **Background to and benefits of the Combination**

Optical network systems manufacturers are increasingly demanding complete, integrated modular solutions, rather than discrete components. In order to fulfill customer requirements, suppliers like Bookham need to be able to deliver a broad range of compact solutions offering higher performance, lower costs and greater functionality in an integrated package of active and passive optical subsystems.

Bookham is a technological leader in integration of multi-function optical capability on a single silicon optical chip. Bookham acquired Marconi's optical components business on 1 February 2002 in order to take advantage of its active optical components to accelerate the Company's development of more highly integrated optical components providing greater subsystems capability to its customers and resulting in margin and efficiency improvements.

Nortel is a leading global supplier of optical amplifiers and vertically integrated transmitters and receivers to telecom-oriented optical networking vendors. The Optical Amplifier Business, based mainly in Paignton, UK and Zurich, Switzerland is a vertically integrated business, with 980nm and 14xx chip foundries, module assembly as well as EDFA and Raman amplifiers offerings, for both the long haul and metro network markets. The Optical Transmitter and Receiver Business is located in Ottawa, Canada and Paignton, UK and also produces active components for the long haul and metro network markets.

By integrating the Optical Transmitter and Receiver and Optical Amplifier Businesses', products with its own active and passive solutions Bookham will take a significant step towards becoming a leading worldwide provider of multi-functional integrated active and passive optical modules and subsystems to optical network systems manufacturers. The products of the Optical Transmitter and Receiver and Optical Amplifier Businesses will enable Bookham to offer its customers a more comprehensive product range combining active and passive optical components as well as optical amplifiers. Furthermore, as part of an independent entity, there will be greater opportunity for components produced by the Optical Transmitter and Receiver and Optical Amplifier Businesses to be sold to other leading systems manufacturers who previously may not have purchased components from Nortel, as Nortel is one of their competitors.

The Company believes that the overlap in production facilities between the Optical Transmitter and Receiver and Optical Amplifier Businesses and Bookham's existing operations will allow management to combine operations and benefit from synergies and economies of scale which will lead to increased cost efficiencies for the new enlarged group. A significant portion of the Optical Transmitter and Receiver and Optical Amplifier Businesses is located in the UK, in close proximity to Bookham's head office. Through the acquisition and ongoing integration of the Marconi Optical Components Business, the Company has demonstrated that it is able to integrate two substantial businesses quickly and efficiently. The Company believes there are a number of areas where substantial synergies can be obtained from the Combination:

- consolidation of semiconductor manufacturing facilities;
- consolidation of packaging operations;
- cost savings in respect of services previously provided by Nortel (e.g. information systems, legal, finance and human resources) where the infrastructure is already in place in Bookham;

- consolidation of research and development programmes;
- combination of the Optical Amplifier and Optical Transmitter and Receiver Businesses' sales force and distribution network (as Bookham currently uses a direct sales force and its own distribution partners); and
- consolidation of the customer services function.

The Company believes that these synergies could result in cost savings of up to £15,000,000 per quarter in the short term (of which £12,000,000 would be cash savings and £3,000,000 would be non-cash savings) and a further £9,000,000 of cash savings per quarter in the medium term for the new enlarged Group.

## **Current trading and prospects**

On 30 July 2002, the Company announced its second quarter and half-yearly results for the six months ended 30 June 2002 ("Unaudited Interim Results"), which showed revenues in the second quarter of £7,116,000, a 27 per cent sequential increase from £5,586,000 in the first quarter of 2002 and a 22 per cent increase compared to the second quarter of 2001 £5,854,000. The supply agreement with Marconi, entered into as part of the acquisition of Marconi's optical components business, coupled with demand for active products accounted for the sequential increase in revenue. The net loss for the second quarter was £16,221,000, down from £16,959,000 in the first quarter and down from £44,624,000 in the second quarter of 2001. This reduction reflected the ongoing focus on cost control, which was equally demonstrated by the reduction in cash burn to £13,721,000, a 38 per cent reduction from £22,202,000 in the first quarter and down 44 per cent from £24,343,000 in the second quarter of 2001. The Company has a strong cash position with £148,891,000 in cash as of 30 June 2002.

Since the publication of the Unaudited Interim Results, trading has continued broadly in line with management expectations, although the market environment continues to deteriorate. In spite of the difficult market conditions, the Company expects to report revenues of approximately £7.5 million and significantly reduced cash outflow for the 3 month period ended 30 September 2002. The Marconi supply agreement continues to account for a high proportion of the Company's revenues.

The Optical Amplifier and Optical Transmitter and Receiver Businesses incurred losses (before tax) of £385,700,000 (including exceptional items of £305,700,000) and £201,200,000 (including exceptional items of £159,600,000) for the financial period ended 31 December 2001 and the six months ended 30 June 2002, respectively. The Combination will therefore have a significant effect on the financial position of the new enlarged group going forward.

The Directors believe that the economies of scale generated by the creation of the new enlarged group will facilitate increased cost efficiencies. Furthermore, as part of an independent entity, there will be greater opportunity for components generated by the Optical Amplifier and Optical Transmitter and Receiver Businesses to be sold to other leading systems manufacturers, who may not previously have purchased components from Nortel, as Nortel is one of their competitors. The addition of Nortel's technically advanced amplifiers, transmitters and receivers to Bookham's existing product portfolio will add greater technical depth and will be a significant step towards the new enlarged group becoming a leading worldwide provider of multi-functional integrated active and passive optical modules and subsystems to optical network systems manufacturers. However, the Combination will initially result in increased cash burn due to, amongst other things, restructuring costs and build up of accounts receivable.

## Terms of the Combination

Pursuant to the conditional agreement entered into today between Bookham and Nortel ("Acquisition Agreement"), Bookham has agreed, subject to the satisfaction of certain conditions, including Shareholder approval, to acquire the Optical Transmitter and Receiver and Optical Amplifier Businesses, excluding cash balances, accounts receivable, trade debtors and other indebtedness but including inventory. As at 30 June 2002, the book value of the inventory being acquired was £195,741,151 on a gross basis and £36,500,000 on a net basis (after reserves for excess and obsolescence). Substantially all the employees of the Optical Transmitter and Receiver and Optical Amplifier Businesses will join the new enlarged group as part of the Combination.

The aggregate consideration for the Combination is to be satisfied by the issue to Nortel of: (i) 61,000,000 new Ordinary Shares; (ii) Warrants over 9,000,000 new Ordinary Shares (iii) US\$30,000,000 (£19,125,000) secured loan notes and (iv) US\$20,000,000 (£12,750,000) unsecured loan notes. The Company will also pay to Nortel on Completion US\$10,000,000 (£6,375,000) for restructuring expenses incurred by Nortel in connection with the Combination.

The Warrants shall be exercisable on one or more occasions during the period commencing on the day following Completion and ending on the tenth anniversary thereafter. No exercise of the Warrants shall be capable of being made, and no issue of Ordinary Shares shall be made by the Company pursuant to exercise of the Warrants, if, as a result of any purported exercise of the Warrants, any member of the Nortel group of companies would, if any Ordinary Shares were to be issued to any of them, hold 30 per cent or more of the issued and outstanding Ordinary Shares on the proposed date of completion of such exercise. The exercise price of the Warrants is p per Ordinary Share.

The unsecured loan notes carry an interest rate of 4 per cent per annum and are repayable in full on the fifth anniversary of their issue (subject to provisions for early repayment). The Secured Loan Notes are to be secured on all the capital equipment of the new enlarged group and all the assets of the Optical Transmitter and Receiver and Optical Amplifier Businesses acquired by Bookham pursuant to the Acquisition Agreement and will carry an interest rate of 7 per cent per annum, which will increase by 0.25 per cent per quarter beginning three months after the issue of the secured loan notes. The secured loan notes, which are non-transferable except within the Nortel Group, will be repayable in full on the third anniversary of their issue (subject to provisions for early repayment).

Upon signing the Acquisition Agreement, Bookham paid to Nortel a refundable deposit of US\$1,200,000 (£765,000). The deposit will be refunded to Bookham on Completion. If the Acquisition Agreement is terminated prior to Completion because, *inter alia*, Shareholder approval is not obtained at the EGM, Bookham will forfeit this deposit in order to compensate Nortel for a portion of the expenses and costs incurred by Nortel.

In connection with the Combination, Nortel Networks Limited, a subsidiary of Nortel, has agreed to enter into a non-exclusive supply agreement at Completion whereby it will be required to purchase from Bookham a minimum of US\$120,000,000 (£76,501,000) of optical products and related services over a period of six quarters from Completion. In addition, over the three years following Completion, Nortel Networks Limited has agreed to purchase from Bookham agreed percentages on a product-by-product basis of its total requirements for the optical components products that are currently being supplied to Nortel by the Optical Transmitter and Receiver and Optical Amplifier Businesses (of which there are approximately 800 optical components products), subject to Bookham meeting certain customary performance criteria relating to, *inter alia*, quality and delivery. The individual percentages will vary for each product from year to year and will, in the majority of

cases, vary in range from 50 per cent to 100 per cent of Nortel Networks Limited's requirements for these optical component products.

Nortel has agreed that it will not, subject to certain exceptions, sell or otherwise dispose of or charge, directly or indirectly, any Ordinary Shares or Warrants for a period of six months after Completion and that it will not sell or otherwise dispose of or charge, directly or indirectly, more than 15,000,000 Ordinary Shares (including Ordinary Shares represented by the Warrants) per quarter during the one year period starting six months after Completion.

In view of the size of its shareholding in the Company following the Combination, Nortel will enter into a Relationship Deed with the Company on Completion which will provide, amongst other things, that for so long as Nortel or Nortel Group Members and associates of Nortel hold, individually or collectively, Ordinary Shares representing 5 per cent or more of the issued Ordinary Share capital of the Company, Bookham will be capable of carrying on its business independently of Nortel and all transactions and relationships with any member of the Nortel group of companies will be at arm's length and on a normal commercial basis. Nortel has also agreed to abstain from exercising the voting rights attaching to the Ordinary Shares held by it or the Nortel group of companies and associates of Nortel and will not have any board representation following the Combination.

### **Shareholder approval**

Due to its size in relation to the Company and its subsidiaries, the Combination is classified under the Listing Rules as a reverse takeover and accordingly is conditional, *inter alia*, on the approval of the shareholders of Bookham. A circular convening an extraordinary general meeting of the Company is expected to be published later today and will be sent to shareholders of Bookham thereafter together with listing particulars of Bookham.

### **Recommendation**

The Directors consider the Combination and the resolutions to be proposed at the EGM to be in the best interests of the Company and the Company's shareholders as a whole. Accordingly, the directors of Bookham unanimously recommend the shareholders to vote in favour of the resolutions as they intend and have undertaken to Nortel to do so (or procure to be done) in respect of their own beneficial holdings and those of their connected persons amounting to 29,496,878 Ordinary Shares (representing approximately 20.5 per cent of the current issued share capital of the Company). In addition the Company has received an irrevocable undertaking to vote in favour of the resolutions, in respect of 12,891,000 Ordinary Shares (representing approximately 9.0 per cent of the current issued share capital of the Company.)

-ends-

### **Notes to Editors**

#### **Information on Bookham Technology**

Bookham Technology (LSE: BHM; Nasdaq: BKHM) designs, manufactures and markets integrated optical components and modules using high volume production methods. With three disruptive semiconductor technologies that offer intrinsic cost reduction: patented silicon-based ASOC, Gallium Arsenide and Indium Phosphide, the company provides end-to-end networking solutions that offer higher performance and greater systems capability to communications network system providers.



### **Information on the Optical Transmitter and Receiver and Optical Amplifier Businesses**

Nortel and its subsidiaries are leading global suppliers of products and services that support the Internet and other public and private data, voice and multimedia communications networks using terrestrial and wireless technologies.

Nortel provides networking solutions to local and long-distance telephone companies, Internet service providers, other communications service providers and enterprises, through three businesses: Enterprise Networks, Wireless Networks and Optical Networks (which includes the Optical Transmitter and Receiver and Optical Amplifier Businesses).

The Optical Transmitter and Receiver and Optical Amplifier Businesses are leaders in the design, development and manufacture of components for optical networking, from discrete optical components to advanced circuits and modules. The Optical Transmitter and Receiver and Optical Amplifier Businesses together are one of the largest optical components businesses globally.

#### *The Optical Transmitter and Receiver Business*

The Optical Transmitter and Receiver Business portfolio includes active optical components including lasers, transmitters, receivers, and transponder modules for metro, long haul and ultra long haul optical markets.

The Optical Transmitter and Receiver Business is based in Ottawa, Canada and Paignton, UK and employs approximately 940 people, approximately one-third located in Ottawa and two-thirds located in Paignton.

#### *The Optical Amplifier Business*

The Optical Amplifier Business is a vertically integrated business, with 980nm pump chip foundries, 980nm and 14xx pumps, module assembly, which designs and builds both EDFA and Raman amplifier offerings for the long haul, metro and, in the case of pump chips, for the submarine optical markets.

The Optical Amplifier Business employs approximately 390 people, mainly located in Paignton, UK and Zurich, Switzerland and also has facilities in Harlow, UK and Poughkeepsie, US. Nortel acquired the 980nm pump laser foundry in Zurich and the assets in Poughkeepsie US, from JDS Uniphase in February 2001.

*Statements made in announcement include certain forward-looking statements that involve risks and uncertainties. Important factors that could cause actual results to differ from those indicated by such forward-looking statements include, among others, uncertainties relating to demand for the group's products, demand for optical components generally and overall future growth in the market for optical components, issues surrounding integration of the Optical Transmitter and Receiver and Optical Amplifier Businesses being acquired from Nortel Networks Corporation, uncertainties relating to the group's investment in, and reorganisation of, its manufacturing capacity, production equipment and personnel and related impact on profitability, quarterly variations in financial results, manufacturing capacity yields and inventory, intellectual property issues and other uncertainties that are discussed in the "Risk Factors" section of the listing particulars of the company which are to be published in connection with the Combination and which will be filed with the United Kingdom Listing Authority and the Registrar of Companies in England and Wales and which will be submitted to the Securities and Exchange Commission. Forward-looking statements represent the group's estimates as of the date made, and should not be relied upon as representing the group's estimates as of any subsequent date. While the group may elect to update forward-looking statements in the future, it disclaims any obligation to do so.*

*Morgan Stanley is acting for Bookham exclusively and no-one else and will not be responsible for providing to anyone other than Bookham the protections afforded to clients of Morgan Stanley or for providing advice in relation to the proposed transaction. Morgan Stanley can be contacted at 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom.*