

**NORTEL NETWORKS CORPORATION**  
**Consolidated Results (unaudited) <sup>(1)</sup>**  
(millions of U.S. dollars, except per share amounts)

	For the three months ended 03/31/02			For the three months ended 03/31/01		
	U.S. GAAP	Pro forma	A	U.S. GAAP	Pro forma	B
	Reported	Adjustments	Pro forma	Reported	Adjustments	Pro forma
Revenues .....	\$ 2,912	\$ -	\$ 2,912	\$ 5,751	\$ -	\$ 5,751
Cost of revenues .....	2,154	-	2,154	3,893	-	3,893
Gross profit .....	758	-	758	1,858	-	1,858
Selling, general and administrative expense .....	744	-	744	1,341	-	1,341
Research and development expense .....	595	-	595	943	-	943
In-process research and development expense.....	-	-	-	15	(15)	-
Amortization of intangibles						
Acquired technology .....	43	(43)	-	274	(274)	-
Goodwill <sup>(2)</sup> .....	-	-	-	1,592	(1,582)	10
Stock option compensation from acquisitions and divestitures .....	25	(25)	-	34	(34)	-
Special charges .....	487	(487)	-	355	(355)	-
Gain on sale of businesses .....	(14)	14	-	-	-	-
Operating loss .....	(1,122)	541	(581)	(2,696)	2,260	(436)
Equity in net loss of associated companies .....	(4)	-	(4)	(16)	7	(9)
Other income (expense) – net .....	(19)	-	(19)	97	-	97
Interest expense						
Long-term debt .....	(58)	-	(58)	(39)	-	(39)
Other .....	(12)	-	(12)	(16)	-	(16)
Loss before income taxes .....	(1,215)	541	(674)	(2,670)	2,267	(403)
Income tax benefit .....	374	(163)	211	301	(175)	126
Net loss from continuing operations .....	(841)	378	(463)	(2,369)	2,092	(277)
Net loss from discontinued operations (net of tax) <sup>(3)</sup> .....	-	-	-	(226)	226	-
Net loss before cumulative effect of accounting change .....	(841)	378	(463)	(2,595)	2,318	(277)
Cumulative effect of accounting change (net of tax of \$9) .....	-	-	-	15	(15)	-
Net loss .....	<u>\$ (841)</u>	<u>\$ 378</u>	<u>\$ (463)</u>	<u>\$ (2,580)</u>	<u>\$ 2,303</u>	<u>\$ (277)</u>
Basic and diluted loss per common share <sup>(4)</sup>						
From continuing operations .....	\$ (0.26)		\$ (0.14)	\$ (0.75)		\$ (0.09)
From discontinued operations .....	-		N/A	(0.07)		N/A
	<u>\$ (0.26)</u>		<u>\$ (0.14)</u>	<u>\$ (0.82)</u>		<u>\$ (0.09)</u>
Pro forma effective tax rate .....	N/A		31.5%	N/A		32.0%
Weighted average number of common shares outstanding (millions)						
- basic .....	3,215		3,215	3,146		3,146
- diluted <sup>(4)</sup> .....	3,215		3,215	3,146		3,146

<sup>(1)</sup> These unaudited consolidated results for the three months ended March 31, 2002 are preliminary and are subject to change. Nortel Networks disclaims any intention or obligation to update or revise these preliminary results prior to the filing of its reported results for the three months ended March 31, 2002. See footnote (a) in the attached press release.

<sup>(2)</sup> Effective January 1, 2002, Nortel Networks adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. Thus, the amortization of goodwill, including goodwill recorded in past business combinations, and the amortization of intangibles with an indefinite life ceased upon adoption of this Statement. The impact of the SFAS 142 requirement to cease amortization would be to reduce the reported net loss by \$1,692 and the reported basic and diluted loss per common share by 54 cents per common share for the three months ended March 31, 2001 had the standard been in effect beginning January 1, 2001.

<sup>(3)</sup> Reported results for the three months ended March 31, 2001 is net of an applicable income tax recovery of \$65.

<sup>(4)</sup> As a result of the reported and pro forma net losses for the three months ended March 31, 2002 and 2001, approximately 188 and 86, respectively, of potentially dilutive securities (in millions) have not been included in the calculation of diluted loss per common share for the periods presented because to do so would have been anti-dilutive.

**A** - Excludes a total of \$541 pre-tax (\$378 after-tax) comprised of: amortization of acquired technology from all acquisitions subsequent to July 1998 of \$43 pre-tax (\$26 after-tax); stock option compensation from acquisitions and divestitures of \$25; gain on sale of businesses of \$14 pre-tax (\$2 after-tax); and special charges of \$487 pre-tax (\$329 after-tax).

**B** - Excludes a total of \$2,534 pre-tax (\$2,303 after-tax) for discontinued operations, Acquisition Related Costs (in-process research and development expense and the amortization of acquired technology and goodwill from all acquisitions subsequent to July 1998), stock option compensation from acquisitions and divestitures, special charges, equity in net loss of associated companies related to Acquisition Related Costs, and the cumulative effect of accounting change.