

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

	For the three months ended 06/30/02 <sup>(1)</sup>			For the three months ended 06/30/01		
	U.S. GAAP	Pro forma	A	U.S. GAAP	Pro forma	B
	Reported	Adjustments	Pro forma	Reported	Adjustments	Pro forma
Revenues .....	\$ 2,773	\$ -	\$ 2,773	\$ 4,610	\$ -	\$ 4,610
Cost of revenues .....	1,815	-	1,815	4,184	-	4,184
Gross profit .....	958	-	958	426	-	426
Selling, general and administrative expense .....	767	-	767	1,642	-	1,642
Research and development expense .....	579	-	579	910	-	910
Amortization of intangibles						
Acquired technology .....	41	(41)	-	285	(285)	-
Goodwill <sup>(2)</sup> .....	-	-	-	1,639	(1,632)	7
Stock option compensation from acquisitions and divestitures .....	21	(21)	-	25	(25)	-
Special charges .....	403	(403)	-	13,570	(13,570)	-
Operating loss .....	(853)	465	(388)	(17,645)	15,512	(2,133)
Equity in net loss of associated companies .....	(10)	-	(10)	(116)	112	(4)
Other income (expense) – net .....	1	-	1	(47)	-	(47)
Interest expense						
Long-term debt .....	(55)	-	(55)	(45)	-	(45)
Other .....	(9)	-	(9)	(43)	-	(43)
Loss before income taxes .....	(926)	465	(461)	(17,896)	15,624	(2,272)
Income tax benefit .....	229	(91)	138	1,252	(527)	725
Net loss from continuing operations .....	(697)	374	(323)	(16,644)	15,097	(1,547)
Net loss from discontinued operations (net of tax) <sup>(3)</sup> .....	-	-	-	(2,784)	2,784	-
Net loss .....	\$ (697)	\$ 374	\$ (323)	\$ (19,428)	\$ 17,881	\$ (1,547)
Basic and diluted loss per common share <sup>(4)</sup>						
From continuing operations .....	\$ (0.20)		\$ (0.09)	\$ (5.21)		\$ (0.48)
From discontinued operations .....	-		N/A	(0.87)		N/A
	\$ (0.20)		\$ (0.09)	\$ (6.08)		\$ (0.48)
Pro forma effective tax rate .....	N/A		30.3%	N/A		32.0%
Weighted average number of common shares (millions)						
- basic <sup>(5)</sup> .....	3,450		3,450	3,193		3,193
- diluted <sup>(4)</sup> .....	3,450		3,450	3,193		3,193

<sup>(1)</sup> These unaudited consolidated results for the three months ended June 30, 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 and six months ended June 30, 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 \$1,738 and the reported basic and diluted loss per common share by 54 cents per common share for the three months ended June 30, 2001 had this Statement been in effect beginning January 1, 2001.

<sup>(3)</sup> Reported results for the three months ended June 30, 2001 is net of an applicable income tax recovery of \$658.

<sup>(4)</sup> As a result of the reported and pro forma net losses for the three months ended June 30, 2002 and 2001, approximately 199 and 35, 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.

<sup>(5)</sup> The basic weighted average number of common shares includes the minimum number of common shares to be issued upon settlement of the prepaid forward purchase contracts issued on June 12, 2002. The minimum number of common shares to be issued is 485 million (101 million on a weighted basis for the three months ended June 30, 2002).

A - Excludes a total of \$465 pre-tax (\$374 after-tax) comprised of: amortization of acquired technology from all acquisitions subsequent to July 1998 of \$41 pre-tax (\$26 after-tax); stock option compensation from acquisitions and divestitures of \$21; and special charges of \$403 pre-tax (\$327 after-tax).

B - Excludes a total of \$19,066 pre-tax (\$17,881 after-tax) for discontinued operations, Acquisition Related Costs (the amortization of acquired technology and goodwill from all acquisitions subsequent to July 1998), stock option compensation from acquisitions and divestitures, special charges, and equity in net loss of associated companies related to Acquisition Related Costs.

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	For the six months ended 06/30/02 <sup>(1)</sup>			For the six months ended 06/30/01		
	U.S. GAAP	Pro forma	A	U.S. GAAP	Pro forma	B
	Reported	Adjustments	Pro forma	Reported	Adjustments	Pro forma
Revenues .....	\$ 5,685	\$ -	\$ 5,685	\$ 10,361	\$ -	\$ 10,361
Cost of revenues .....	3,969	-	3,969	8,077	-	8,077
Gross profit .....	1,716	-	1,716	2,284	-	2,284
Selling, general and administrative expense .....	1,511	-	1,511	2,983	-	2,983
Research and development expense .....	1,174	-	1,174	1,853	-	1,853
In-process research and development expense.....	-	-	-	15	(15)	-
Amortization of intangibles						
Acquired technology .....	84	(84)	-	559	(559)	-
Goodwill <sup>(2)</sup> .....	-	-	-	3,231	(3,214)	17
Stock option compensation from acquisitions and divestitures .....	46	(46)	-	59	(59)	-
Special charges .....	890	(890)	-	13,925	(13,925)	-
Gain on sale of businesses .....	(14)	14	-	-	-	-
Operating loss .....	(1,975)	1,006	(969)	(20,341)	17,772	(2,569)
Equity in net loss of associated companies .....	(14)	-	(14)	(132)	119	(13)
Other income (expense) – net .....	(18)	-	(18)	50	-	50
Interest expense						
Long-term debt .....	(113)	-	(113)	(84)	-	(84)
Other .....	(21)	-	(21)	(59)	-	(59)
Loss before income taxes .....	(2,141)	1,006	(1,135)	(20,566)	17,891	(2,675)
Income tax benefit .....	603	(254)	349	1,553	(702)	851
Net loss from continuing operations .....	(1,538)	752	(786)	(19,013)	17,189	(1,824)
Net loss from discontinued operations (net of tax) <sup>(3)</sup> .....	-	-	-	(3,010)	3,010	-
Net loss before cumulative effect of accounting change .....	(1,538)	752	(786)	(22,023)	20,199	(1,824)
Cumulative effect of accounting change (net of tax of \$9) .....	-	-	-	15	(15)	-
Net loss .....	<u>\$ (1,538)</u>	<u>\$ 752</u>	<u>\$ (786)</u>	<u>\$ (22,008)</u>	<u>\$ 20,184</u>	<u>\$ (1,824)</u>
Basic and diluted loss per common share <sup>(4)</sup>						
From continuing operations .....	\$ (0.46)		\$ (0.24)	\$ (6.00)		\$ (0.58)
From discontinued operations .....	-		N/A	(0.94)		N/A
	<u>\$ (0.46)</u>		<u>\$ (0.24)</u>	<u>\$ (6.94)</u>		<u>\$ (0.58)</u>
Pro forma effective tax rate .....	N/A		31.0%	N/A		32.0%
Weighted average number of common shares (millions)						
- basic <sup>(5)</sup> .....	3,333		3,333	3,170		3,170
- diluted <sup>(4)</sup> .....	3,333		3,333	3,170		3,170

<sup>(1)</sup> These unaudited consolidated results for the six months ended June 30, 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 and six months ended June 30, 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 \$3,430 and the reported basic and diluted loss per common share by \$1.08 per common share for the six months ended June 30, 2001 had this Statement been in effect beginning January 1, 2001.

<sup>(3)</sup> Reported results for the six months ended June 30, 2001 is net of an applicable income tax recovery of \$723.

<sup>(4)</sup> As a result of the reported and pro forma net losses for the six months ended June 30, 2002 and 2001, approximately 192 and 60, 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.

<sup>(5)</sup> The basic weighted average number of common shares includes the minimum number of common shares to be issued upon settlement of the prepaid forward purchase contracts issued on June 12, 2002. The minimum number of common shares to be issued is 485 million (51 million on a weighted basis for the six months ended June 30, 2002).

**A** - Excludes a total of \$1,006 pre-tax (\$752 after-tax) comprised of: amortization of acquired technology from all acquisitions subsequent to July 1998 of \$84 pre-tax (\$52 after-tax); stock option compensation from acquisitions and divestitures of \$46; special charges of \$890 pre-tax (\$656 after-tax); and gain on sale of businesses of \$14 pre-tax (\$2 after-tax).

**B** - Excludes a total of \$21,600 pre-tax (\$20,184 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.