

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

	For the three months ended 09/30/02 <sup>(1)</sup>			For the three months ended 09/30/01		
	U.S. GAAP Reported	Pro forma Adjustments	A Pro forma	U.S. GAAP Reported	Pro forma Adjustments	B Pro forma
Revenues .....	\$ 2,355	\$ -	\$ 2,355	\$ 3,694	\$ -	\$ 3,694
Cost of revenues .....	1,454	-	1,454	3,673	-	3,673
Gross profit .....	901	-	901	21	-	21
Selling, general and administrative expense .....	682	-	682	1,919	-	1,919
Research and development expense .....	565	-	565	808	-	808
Amortization of intangibles						
Acquired technology .....	38	(38)	-	185	(185)	-
Goodwill <sup>(2)</sup> .....	-	-	-	454	(446)	8
Stock option compensation from acquisitions and divestitures .....	22	(22)	-	32	(32)	-
Special charges.....	1,194	(1,194)	-	1,024	(1,024)	-
Gain on sale of businesses.....	-	-	-	(45)	45	-
Operating loss .....	(1,600)	1,254	(346)	(4,356)	1,642	(2,714)
Equity in net loss of associated companies .....	(5)	-	(5)	(6)	-	(6)
Other expense – net .....	(2)	-	(2)	(318)	-	(318)
Interest expense						
Long-term debt .....	(55)	-	(55)	(54)	-	(54)
Other .....	(12)	-	(12)	(23)	-	(23)
Loss before income taxes .....	(1,674)	1,254	(420)	(4,757)	1,642	(3,115)
Income tax benefit (provision) .....	(125)	125	-	1,289	(356)	933
Net loss from continuing operations .....	(1,799)	1,379	(420)	(3,468)	1,286	(2,182)
Net loss from discontinued operations (net of tax) .....	-	-	-	-	-	-
Net loss .....	<u>\$ (1,799)</u>	<u>\$ 1,379</u>	<u>\$ (420)</u>	<u>\$ (3,468)</u>	<u>\$ 1,286</u>	<u>\$ (2,182)</u>
Basic and diluted loss per common share <sup>(3)</sup>						
From continuing operations .....	\$ (0.42)		\$ (0.10)	\$ (1.08)		\$ (0.68)
From discontinued operations .....	-		N/A	-		N/A
	<u>\$ (0.42)</u>		<u>\$ (0.10)</u>	<u>\$ (1.08)</u>		<u>\$ (0.68)</u>
Pro forma effective tax rate .....	N/A		N/A	N/A		30.0%
Weighted average number of common shares (millions)						
- basic <sup>(4)</sup> .....	4,335		4,335	3,203		3,203
- diluted <sup>(3)</sup> .....	4,335		4,335	3,203		3,203

<sup>(1)</sup> These unaudited consolidated results for the three months ended September 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 nine months ended September 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 \$454 and the reported basic and diluted loss per common share by 14 cents per common share for the three months ended September 30, 2001 had this Statement been in effect beginning January 1, 2001.

<sup>(3)</sup> As a result of the reported and pro forma net losses for the three months ended September 30, 2002 and 2001, approximately 278 and 101, 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>(4)</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.

**A** - Excludes a total of \$1,379 after-tax comprised of: amortization of acquired technology from all acquisitions subsequent to July 1998 of \$38; stock option compensation from acquisitions and divestitures of \$22; special charges of \$1,194; and certain additional tax valuation allowances of \$450 reduced by a \$325 income tax recovery.

**B** - Excludes a total of \$1,642 pre-tax (\$1,286 after-tax) for discontinued operations, the amortization of acquired technology and goodwill from all acquisitions subsequent to July 1998, stock option compensation from acquisitions and divestitures, special charges, and gain on sale of businesses.

**NORTEL NETWORKS CORPORATION**  
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	For the nine months ended 09/30/02 <sup>(1)</sup>			For the nine months ended 09/30/01		
	U.S. GAAP	Pro forma	A	U.S. GAAP	Pro forma	B
	Reported	Adjustments	Pro forma	Reported	Adjustments	Pro forma
Revenues .....	\$ 8,040	\$ -	\$ 8,040	\$ 14,055	\$ -	\$ 14,055
Cost of revenues .....	5,423	-	5,423	11,750	-	11,750
Gross profit .....	2,617	-	2,617	2,305	-	2,305
Selling, general and administrative expense .....	2,193	-	2,193	4,902	-	4,902
Research and development expense .....	1,739	-	1,739	2,661	-	2,661
In-process research and development expense.....	-	-	-	15	(15)	-
Amortization of intangibles						
Acquired technology .....	122	(122)	-	744	(744)	-
Goodwill <sup>(2)</sup> .....	-	-	-	3,685	(3,660)	25
Stock option compensation from acquisitions and divestitures .....	68	(68)	-	91	(91)	-
Special charges.....	2,084	(2,084)	-	14,949	(14,949)	-
Gain on sale of businesses .....	(14)	14	-	(45)	45	-
Operating loss .....	(3,575)	2,260	(1,315)	(24,697)	19,414	(5,283)
Equity in net loss of associated companies .....	(19)	-	(19)	(138)	119	(19)
Other expense – net .....	(20)	-	(20)	(268)	-	(268)
Interest expense						
Long-term debt .....	(168)	-	(168)	(138)	-	(138)
Other .....	(33)	-	(33)	(82)	-	(82)
Loss before income taxes .....	(3,815)	2,260	(1,555)	(25,323)	19,533	(5,790)
Income tax benefit .....	478	(129)	349	2,842	(1,058)	1,784
Net loss from continuing operations .....	(3,337)	2,131	(1,206)	(22,481)	18,475	(4,006)
Net loss from discontinued operations (net of tax) <sup>(3)</sup> .....	-	-	-	(3,010)	3,010	-
Net loss before cumulative effect of accounting change .....	(3,337)	2,131	(1,206)	(25,491)	21,485	(4,006)
Cumulative effect of accounting change (net of tax of \$9) .....	-	-	-	15	(15)	-
Net loss .....	<u>\$ (3,337)</u>	<u>\$ 2,131</u>	<u>\$ (1,206)</u>	<u>\$ (25,476)</u>	<u>\$ 21,470</u>	<u>\$ (4,006)</u>
Basic and diluted loss per common share <sup>(4)</sup>						
From continuing operations .....	\$ (0.91)		\$ (0.33)	\$ (7.07)		\$ (1.26)
From discontinued operations .....	-		N/A	(0.94)		N/A
	<u>\$ (0.91)</u>		<u>\$ (0.33)</u>	<u>\$ (8.01)</u>		<u>\$ (1.26)</u>
Pro forma effective tax rate .....	N/A		22.7%	N/A		30.9%
Weighted average number of common shares (millions)						
- basic <sup>(5)</sup> .....	3,671		3,671	3,181		3,181
- diluted <sup>(4)</sup> .....	3,671		3,671	3,181		3,181

<sup>(1)</sup> These unaudited consolidated results for the nine months ended September 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 nine months ended September 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 \$3,884 and the reported basic and diluted loss per common share by \$1.22 per common share for the nine months ended September 30, 2001 had this Statement been in effect beginning January 1, 2001.

<sup>(3)</sup> Reported results for the nine months ended September 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 nine months ended September 30, 2002 and 2001, approximately 222 and 71, 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 197 million on a weighted basis for the nine months ended September 30, 2002.

**A** - Excludes a total of \$2,260 pre-tax (\$2,131 after-tax) comprised of: amortization of acquired technology from all acquisitions subsequent to July 1998 of \$122 pre-tax (\$90 after-tax); stock option compensation from acquisitions and divestitures of \$68; special charges of \$2,084 pre-tax (\$1,850 after-tax); gain on sale of businesses of \$14 pre-tax (\$2 after-tax); and for the three months ended September 30, 2002, certain additional tax valuation allowances of \$450 reduced by a \$325 income tax recovery.

**B** - Excludes a total of \$23,242 pre-tax (\$21,470 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, gain on sale of businesses, equity in net loss of associated companies related to Acquisition Related Costs, and the cumulative effect of accounting change.