

## CARRIER NETWORKS

2007

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2011

**Richard Lowe**  
President, Carrier Networks

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### NON-GAAP MEASURES

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This presentation includes the following non-GAAP measures:

Adjusted revenue, adjusted for the UMTS Access business that was sold on December 31, 2006 are non-GAAP measures. Nortel's management believes that this supplemental information is meaningful, given the sale of the UMTS Access business, by providing greater transparency to investors with respect to Nortel's performance and by facilitating comparisons to Nortel's historical performance.

Cash flow from operations, excluding the \$585 million outflow related to the litigation settlement, is a non-GAAP measure. Nortel's management believes that this supplemental information is meaningful, given the impact on cash flow from operations of the global class action litigation settlement, by providing greater transparency to investors with respect to Nortel's performance and by facilitating comparisons to Nortel's historical performance. This non-GAAP measure should be considered in addition to, but not as a substitute for, the information contained in our financial statements prepared in accordance with GAAP.

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### THE BIG QUESTIONS

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What is Nortel's plan to win in LTE?

When will CDMA tail off?

Are there growth opportunities beyond wireless?

How will Carrier Networks maintain double digit OM%?

**BUSINESS / FINANCIAL HIGHLIGHTS**

**STRATEGY:**

Drive stable returns through innovative design focusing on technology, value chain, and customer transitions

NETWORKS IN TRANSITION	OBJECTIVES	FINANCIAL HIGHLIGHTS																																
	<ol style="list-style-type: none"> <li>Strong Position in select global markets</li> <li>Drive software &amp; applications</li> <li>Drive OM in mature businesses</li> <li>Growth beyond Wireless</li> </ol>	<p><b>REVENUE</b></p> <table border="1"> <caption>REVENUE (Billion)</caption> <thead> <tr> <th>Year</th> <th>Wireless Infra</th> <th>VolIP/Apps/Core</th> <th>Services</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>2005</td> <td>3.5</td> <td>1.0</td> <td>1.7</td> <td>6.2</td> </tr> <tr> <td>2006</td> <td>3.8</td> <td>1.0</td> <td>1.8</td> <td>6.6</td> </tr> <tr> <td>2007</td> <td>3.5</td> <td>1.0</td> <td>1.2</td> <td>5.7</td> </tr> </tbody> </table> <p><b>OPERATING MARGIN</b></p> <table border="1"> <thead> <tr> <th>Category</th> <th>2005</th> <th>2006</th> <th>2007</th> </tr> </thead> <tbody> <tr> <td>CN</td> <td>6.6%</td> <td>9.3%</td> <td>18.7%</td> </tr> <tr> <td>CN with Services</td> <td>9.6%</td> <td>9.6%</td> <td>18.2%</td> </tr> </tbody> </table>	Year	Wireless Infra	VolIP/Apps/Core	Services	Total	2005	3.5	1.0	1.7	6.2	2006	3.8	1.0	1.8	6.6	2007	3.5	1.0	1.2	5.7	Category	2005	2006	2007	CN	6.6%	9.3%	18.7%	CN with Services	9.6%	9.6%	18.2%
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Balancing Today's Profitable Businesses with Investments for the Future

**CARRIER NETWORKS PERFORMANCE AND OBJECTIVES**

	2007 Revenue	2007 OM%	2007-2011 Rev CAGR Target	2011 OM% Target
Carrier Networks	\$4.5B	19%	Flat	15-18%
CN with Services	\$5.7B	18%	Flat	14-17%
Wireless	\$3.9B	24%	(3%)	13-16%
Core Multimedia/Apps	\$1.8B	4%	8%	16-19%

Stable Performance Through 2011

**FOUNDATIONAL BUSINESSES**

CDMA	GSM	Voice & Apps																		
<b>CDMA MARKET SIZE</b> <table border="1"> <tr> <th>2008</th> <th>2011</th> <th>CAGR</th> </tr> <tr> <td>\$9.6B</td> <td>\$8.4B</td> <td>-4%</td> </tr> </table> <p><b>Market Peaking</b></p> <ul style="list-style-type: none"> <li>Subscriber growth steady</li> <li>Data traffic growth accelerating</li> <li>Selective new opportunities - China 3G, Eastern Europe, Africa</li> </ul> <p><b>Nortel in Context</b></p> <ul style="list-style-type: none"> <li>#2 CDMA global market share*</li> <li>Strong &amp; Profitable</li> <li>NA DO/DOcA upgrades remain</li> <li>Korean business steady</li> </ul> <p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>Preserve OM strength</li> <li>Leverage base to 4G</li> </ul>	2008	2011	CAGR	\$9.6B	\$8.4B	-4%	<b>GSM MARKET SIZE</b> <table border="1"> <tr> <th>2008</th> <th>2011</th> <th>CAGR</th> </tr> <tr> <td>\$25B</td> <td>\$20B</td> <td>-8%</td> </tr> </table> <p><b>The Long Tail</b></p> <ul style="list-style-type: none"> <li>Many non-UMTS remaining</li> <li>Highly competitive</li> <li>Incumbency &amp; low cost are key</li> </ul> <p><b>Nortel in Context</b></p> <ul style="list-style-type: none"> <li>#5 GSM global market share*</li> <li>Rewards from new Cost Structure</li> <li>Profitable growth above plan</li> <li>Loyal base with major operators</li> </ul> <p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>Cost reduction, portfolio refresh</li> <li>Evolved Edge, 2G to 4G</li> </ul>	2008	2011	CAGR	\$25B	\$20B	-8%	<b>VOIP MARKET SIZE</b> <table border="1"> <tr> <th>2008</th> <th>2011</th> <th>CAGR</th> </tr> <tr> <td>\$3.5B</td> <td>\$4.5B</td> <td>9%</td> </tr> </table> <p><b>Rapid Transition</b></p> <ul style="list-style-type: none"> <li>VoIP growing through 2011+</li> <li>Core IP/Packetization to support new apps</li> <li>Application sales are growing</li> </ul> <p><b>Nortel in Context</b></p> <ul style="list-style-type: none"> <li>#1 VoIP global share*</li> <li>Leverage Carrier grade performance</li> <li>World's largest VoIP installs</li> </ul> <p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>Hardware independent Software</li> <li>Cost reduction to compete in Asia</li> </ul>	2008	2011	CAGR	\$3.5B	\$4.5B	9%
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\* Dell'Oro, May 2008

**Solid Foundational Businesses Fund Investment in Growth Opportunities**

**MARKET SIZE**

2008 TOTAL ADDRESSED MARKET	GROWTH SEGMENTS	GROWTH MARKETS
<p>\$54B</p> <p> <ul style="list-style-type: none"> <li>Mature</li> <li>4G</li> <li>VoIP</li> <li>Service Provider Apps</li> </ul> </p>	<p><b>Growth</b></p> <ul style="list-style-type: none"> <li>4G Wireless                             <ul style="list-style-type: none"> <li>LTE (2010+ ramp)</li> <li>WiMAX (49% CAGR)</li> </ul> </li> <li>VoIP &amp; Applications                             <ul style="list-style-type: none"> <li>VoIP Infrastructure (9%)</li> <li>Applications (33%)</li> </ul> </li> </ul>	<p>30% CAGR</p> <p> <ul style="list-style-type: none"> <li>Service Provider Apps</li> <li>VoIP Infrastructure</li> <li>WiMAX</li> <li>LTE</li> </ul> </p>

Note: Converged IP Core comprised of IMS Core and Transport, IP Voice and Data Core for 2.5G, 3G & 4G wireless networks

**Integrated growth portfolio from Infrastructure to Applications & Enablers**

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### MARKET & TECHNOLOGY TRENDS

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TREND	REQUIREMENTS
<ul style="list-style-type: none"> <li>• Mobile data growth                             <ul style="list-style-type: none"> <li>- Data revenue growing in developed</li> <li>- Subs and voice growth in emerging</li> </ul> </li> <li>• Quest for new service revenue                             <ul style="list-style-type: none"> <li>- Driving broadband access</li> <li>- Attracting new Operators</li> </ul> </li> <li>• New, "open" devices &amp; networks                             <ul style="list-style-type: none"> <li>- Shifting value chain</li> <li>- Enabling new business models</li> </ul> </li> <li>• Consolidation &amp; China entrants                             <ul style="list-style-type: none"> <li>- Margin pressure</li> <li>- Select commoditization</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Broadband infrastructure                             <ul style="list-style-type: none"> <li>- Greater capacity and coverage</li> <li>- Higher speed access technology</li> </ul> </li> <li>• Rapid service creation                             <ul style="list-style-type: none"> <li>- Agile software development platform</li> <li>- SOA &amp; Web services models</li> </ul> </li> <li>• Greater Flexibility / Virtualization                             <ul style="list-style-type: none"> <li>- Decouple hardware and software</li> </ul> </li> <li>• Lowest cost OR best performance OR Time-to-market</li> </ul>

Emphasis shifting: providing connectivity → enhancing user experience

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### GROWTH OPPORTUNITIES: 4G WIRELESS

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LTE			WiMAX											
<b>MARKET SIZE</b> <table border="1"> <tr> <th>2010</th> <th>2011</th> <th>CAGR</th> </tr> <tr> <td>\$0.4B</td> <td>\$1.6B</td> <td>N/A</td> </tr> </table>			2010	2011	CAGR	\$0.4B	\$1.6B	N/A	<b>COMPETITORS</b> 					
2010	2011	CAGR												
\$0.4B	\$1.6B	N/A												
<ul style="list-style-type: none"> <li>• Market ramp begins in 2010                             <ul style="list-style-type: none"> <li>- NA and Japan early movers</li> </ul> </li> <li>• Strategy                             <ul style="list-style-type: none"> <li>- Capturing early adopter trials</li> <li>- Convert NA CDMA base: 30% NA share</li> <li>- Expand to WE &amp; Asia: Global 10%-15% share</li> <li>- Foster early 4G ecosystem</li> </ul> </li> <li>• Challenges                             <ul style="list-style-type: none"> <li>- Incumbency outside of NA, Scale</li> </ul> </li> <li>• Nortel Advantages                             <ul style="list-style-type: none"> <li>- TTM, TCO, Technology, N.A. base</li> <li>- MEN and Enterprise synergies</li> <li>- Simple upgrade of installed base</li> <li>- IPR</li> </ul> </li> </ul>			<b>MARKET SIZE (Infra. Only)</b> <table border="1"> <tr> <th>2008</th> <th>2011</th> <th>CAGR</th> </tr> <tr> <td>\$1.0B</td> <td>\$3.2B</td> <td>49%</td> </tr> </table>			2008	2011	CAGR	\$1.0B	\$3.2B	49%	<b>COMPETITORS</b> 		
2008	2011	CAGR												
\$1.0B	\$3.2B	49%												
<ul style="list-style-type: none"> <li>• 12 month market delay                             <ul style="list-style-type: none"> <li>- Certification, Sprint XOHM uncertainty</li> </ul> </li> <li>• Strategy                             <ul style="list-style-type: none"> <li>- Focus on underserved / personal broadband</li> <li>- Meter investment</li> <li>- Partner for reach &amp; TTM</li> </ul> </li> <li>• Challenges                             <ul style="list-style-type: none"> <li>- Fragmentation, Ecosystem</li> </ul> </li> <li>• Nortel Advantages                             <ul style="list-style-type: none"> <li>- Technology, end-to-end capability</li> <li>- MEN and Enterprise synergies</li> <li>- Core Technology, AGW / VoIP</li> </ul> </li> </ul>														

Shared Technology and ability to Rapidly Reallocate Resources

**GROWTH OPPORTUNITIES: VOIP & SERVICE PROVIDER APPLICATIONS**

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- Market evolving rapidly
  - Competitors
- Strategy
  - Build on VoIP base
  - Partnerships (Microsoft, IBM, ...)
  - Apps rollout pre-4G, post 4G pull
- Challenges
  - Web competition, Apps legitimacy
  - Skillsets, Carriers as apps channel
- Nortel Advantages
  - Incumbency (VoIP #1, largest installs)
  - Voice: Real-time apps heritage
  - Intimate network knowledge
  - Enterprise synergy (SIP, UC, Channels)

**23% CAGR**

2008      2009      2010      2011

- Stand Alone & Collaborative (FMC, IPTV, UC ...)
- Apps Deployment SW (ACE ...)
- Identity & Access Mgmt (policy, location ...)
- VoIP Infrastructure

**EXECUTING ON THE GROWTH PLAN**

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WHAT	HOW
<div style="display: flex; justify-content: center; align-items: center; gap: 20px; margin-bottom: 20px;"> <div style="background-color: #003366; color: white; padding: 10px; border-radius: 10px; text-align: center;"> <b>LTE WIMAX</b> </div> <div style="font-size: 24px;">+</div> <div style="background-color: #FF6600; color: white; padding: 10px; border-radius: 10px; text-align: center;"> <b>VoIP/ Service Provider Apps</b> </div> </div> <ol style="list-style-type: none"> <li>1. Convert installed base</li> <li>2. Extend wins into other geos</li> <li>3. Foster early 4G ecosystem</li> <li>4. Deliver hardware freedom model</li> <li>5. Capitalize on value chain shift</li> </ol>	<ul style="list-style-type: none"> <li>• Leverage technology leadership             <ul style="list-style-type: none"> <li>- Leader in scalable 4G RAN</li> <li>- Lowest TCO</li> <li>- Common 4G WiMAX / LTE technology</li> </ul> </li> <li>• Provide end-to-end 4G bundles             <ul style="list-style-type: none"> <li>- Real-time services: VoIP, Video, FMC, etc.</li> <li>- Femto / pico cells for in-building</li> <li>- Custom end-2-end solutions toolkit</li> <li>- Wireless backhaul solutions</li> </ul> </li> <li>• Enable new operator revenues             <ul style="list-style-type: none"> <li>- Web services, mobile advertising</li> <li>- 4G Enterprise solutions</li> <li>- Carrier hosted SMB / FMC solutions</li> </ul> </li> </ul>

**4G Infrastructure + Applications offering to enable the end user experience**

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**LC DRIVERS**  
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**Key Growth Investments**

- 4G Wireless
  - WiMAX in 2009 onward, larger LTE market from 2010 out
- VoIP & Service Provider Applications
  - High-margin software growth path builds on H/W installed base

**Key Profitability Drivers**

- Mature Segment Cost Reduction Programs
  - Drive solid foundational business and stable OM
- Product Mix moving towards Software
  - VoIP and applications contribute near/mid term profitable growth

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**SUMMARY**  
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**STRATEGY:**

Drive stable returns through innovative design focusing on technology, value chain, and customer transitions

- What is Nortel's plan to win in LTE?
  - Convert NA CDMA base (30% share) and then extend into global markets (10-15% share)
- When will CDMA tail off?
  - (4%) market CAGR through 2011: long tail with strong OM performance
- Are there growth opportunities beyond wireless?
  - YES: VoIP and Applications present significant medium and long term growth
- How will Carrier Networks maintain double digit OM%?
  - Through aggressive cost reduction and a hard push into software

**Balancing Today's Profitable Businesses with Investments for the Future**

