



FINANCIAL OVERVIEW

Analyst Day 2008

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BUSINESS MADE SIMPLE





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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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SIGNIFICANT PROGRESS TO DATE

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	H2 2006	YoY B/(W)	FY 2007	YoY B/(W)	Q1 2008	YoY B/(W)
Revenue	\$6.2B	+13%	\$10.9B	+2%*	\$2.76B	+11%
Gross Margin	39.1%	+28 bps	42.1%	+327 bps	41.6%	+120 bps
Operating Margin	3.3%	+353 bps	3.7%	+369 bps	4.7%	+512 bps
Operating Cash Flow	\$519M		\$182M**		(\$260M)	

* UMTS adjusted ** Excludes litigation settlement

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PRIORITIES

- Track record of performance:
 - Step change improvements in breakeven businesses
- Deliver against guidance
- Demonstrate top line growth
 - Proportional drop to bottom line
- Reduce our operating expenses
 - particularly SG&A
- Deliver operating cash to the business
- Strengthen balance sheet

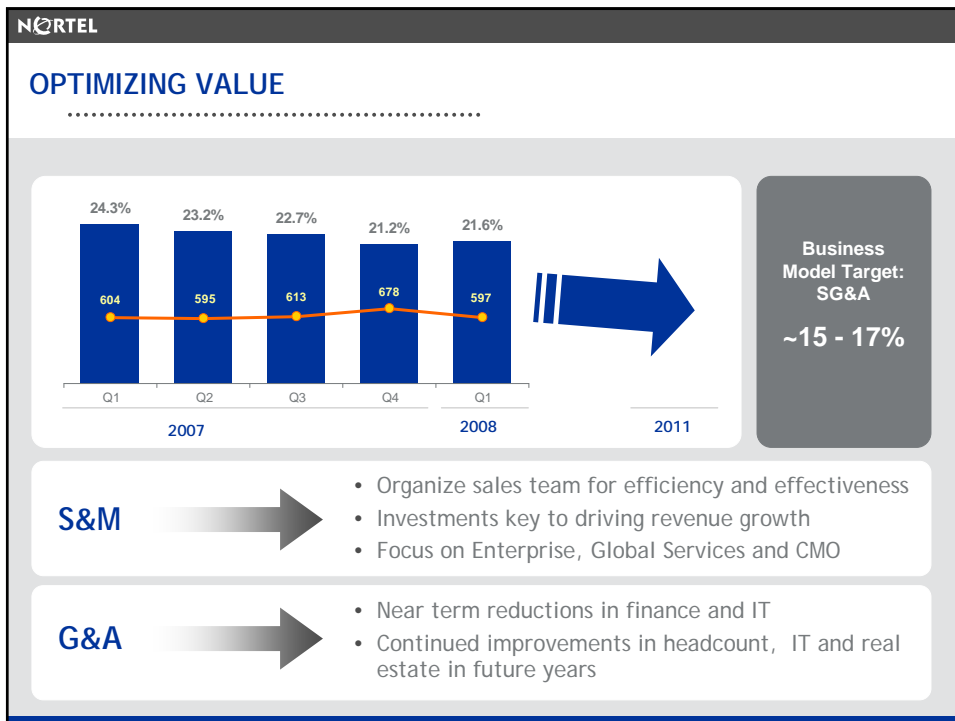
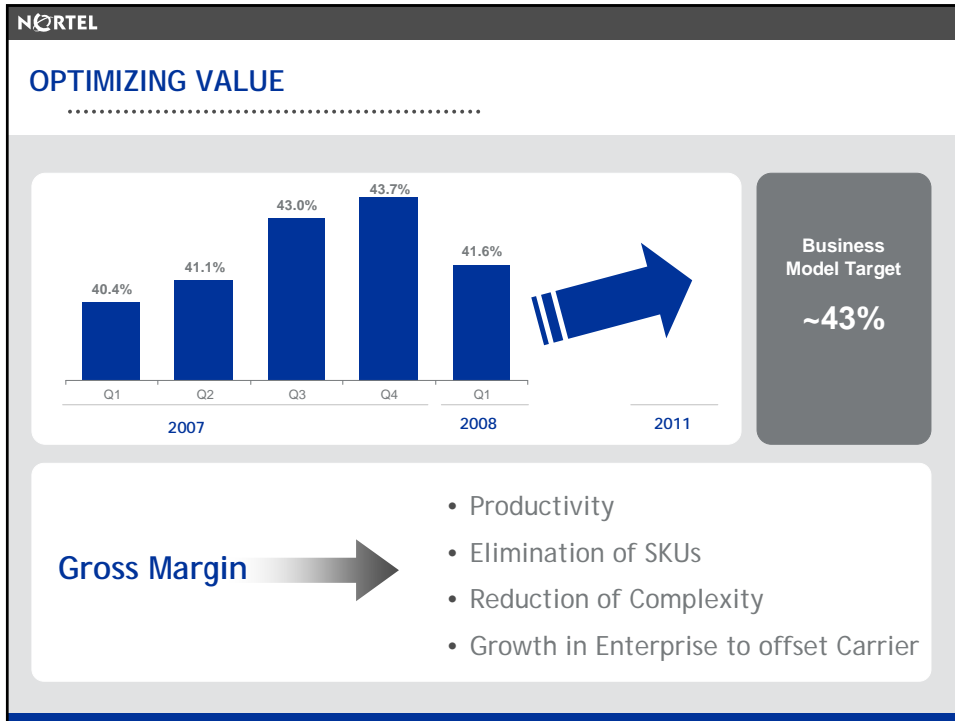
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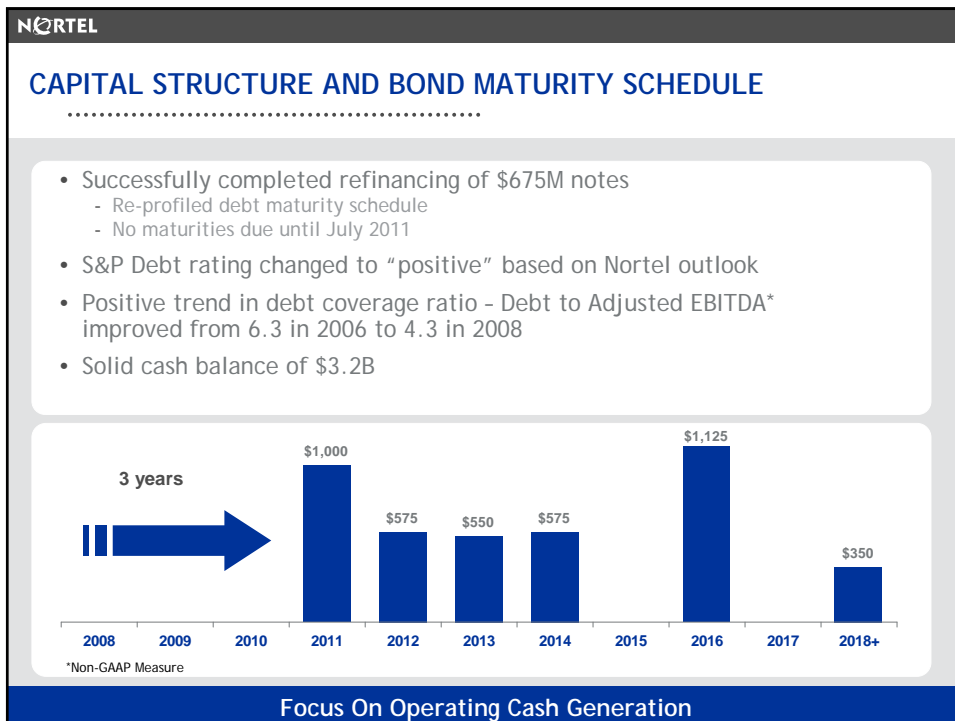
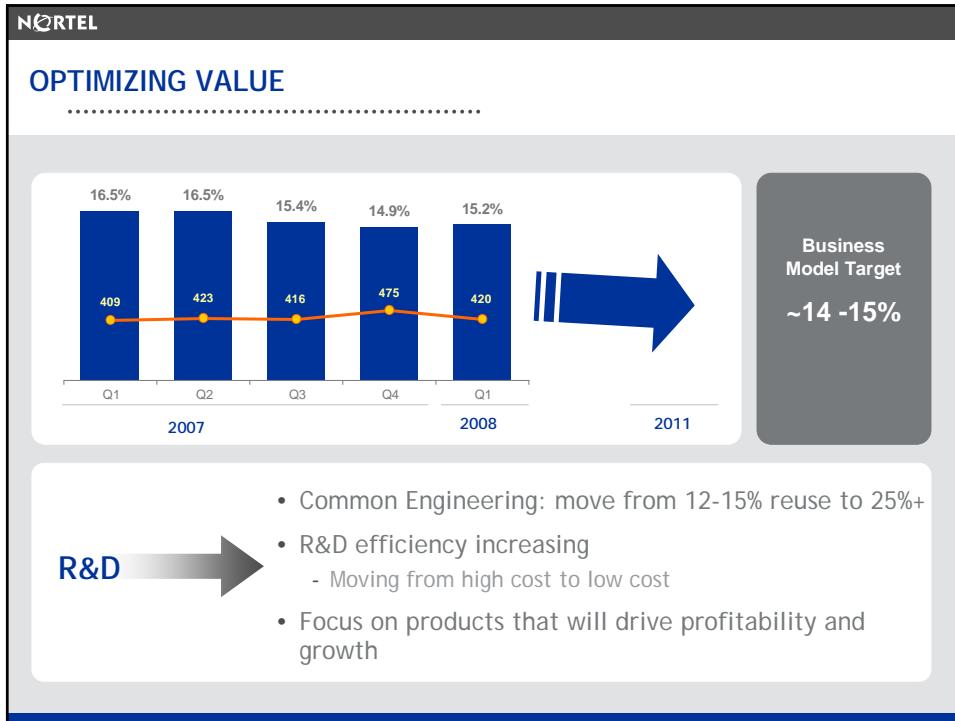
ACHIEVING TOP LINE REVENUE GROWTH

2007

2011

2007-2011 CAGR	
Carrier Networks	0%
Enterprise Solutions	11%
Metro Ethernet Networks	10%
Global Services	6%





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CASH GENERATION

- Cash generation driven by earnings and working capital
- Outflows to fund:
 - Interest: \$300M
 - Pension: \$215M
 - Capex: \$200-250M
 - Restructuring: \$290M in 2008, reducing to \$175M in 2009

WORKING CAPITAL				
Period	Payables	Net Inventory	Receivables	Total Days
2006	49	22	76	49
2007	58	26	72	40

Net Deferred Tax Asset: \$3.3B

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VALUE CREATION

- Our focus:
 - revenue growth
 - Continued operating margin improvement
 - free cash flow generation
- Our business model is achievable
 - Must show revenue growth & reduction in cost structure
- Our metric is Value Creation

