



> **BUSINESS MADE SIMPLE**

NORTEL

Mike Zafirovski
President and CEO
May 2006

NORTEL

Disclaimer



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any material and adverse affects on Nortel’s performance if its expectations regarding market demand for particular products prove to be wrong or because of certain barriers in its efforts to expand internationally; any reduction in Nortel’s operating results and any related volatility in the market price of its publicly traded securities arising from any decline in its gross margin, or fluctuations in foreign currency exchange rates; any negative developments associated with Nortel’s supply contract and contract manufacturing agreements including as a result of using a sole supplier for key optical networking solutions components, and any defects or errors in Nortel’s current or planned products; any negative impact to Nortel of its failure to achieve its business transformation objectives; additional valuation allowances for all or a portion of its deferred tax assets; Nortel’s failure to protect its intellectual property rights, or any adverse judgments or settlements arising out of disputes regarding intellectual property; changes in regulation of the Internet and/or other aspects of the industry; Nortel’s failure to successfully operate or integrate its strategic acquisitions, or failure to consummate or succeed with its strategic alliances; any negative effect of Nortel’s failure to evolve adequately its financial and managerial control and reporting systems and processes, manage and grow its business, or create an effective risk management strategy; and (iii) risks and uncertainties relating to Nortel’s liquidity, financing arrangements and capital including: the impact of Nortel’s most recent restatement and two previous restatements of its financial statements; any acceleration under their public debt indentures and credit facilities, which may result in Nortel and NNL being unable to meet their respective payment obligations; any inability of Nortel to manage cash flow fluctuations to fund working capital requirements or achieve its business objectives in a timely manner or obtain additional sources of funding; 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Challenges ...

6 Months on the Job:

- > Met with hundreds of customers on 5 continents
- > Reviewed every business line, met thousands of employees
- > Met key suppliers & several shareholders
- > Analyzed opportunities & weaknesses

Our Conviction:

- > We can & will recreate a great company
- > Financial strength will be the foundation
- > We will restore:
 - Credibility
 - Relevance
 - Excellence in execution

Our Commitment:

- > Transparent Agenda
- > Unmatched Drive
- > High Say/Do Ratio



Our Plan and Framework

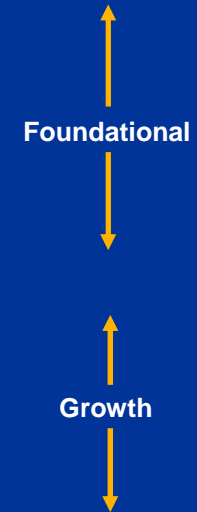
Near term, Long term and Foundational

BIG – NEAR TERM

- > Business Transformation
- > Integrity Renewal
- > Growth Imperatives

6-POINT PLAN – LONG TERM

- > World-class management team, culture and processes
- > Aggressive focus on the balance sheet, corporate governance and business/financial controls
- > Drive to world-class cost structure and quality levels
- > Target 20% share for all key activities
- > Invest for profitable growth
- > Increased emphasis on service and software solutions



OPERATING RHYTHM – FOUNDATIONAL

- > I. People
- > II. Strategy
- > III. Product (MGPD)
- > IV. Budget

Recent Financial Performance

US\$



	2002 ^{***}	2003	2004	2005
Revenue	\$10.7B	\$9.9B	\$9.5B	\$10.5B
Change YoY	(43.0%)	(7.5%)	(4.2%)	10.6%
Gross Margin	35.9%	42.4%	41.4%	40.9%
SG&A	23.8%	19.8%	22.4%	22.9%
R&D	19.4%	19.8%	20.6%	17.6%
Operating Margin*	(7.4%)	2.8%	(1.6%)	0.4%
Other ^{**}	(2,619)	(141)	(89)	(2,623)
EBT	(3,411)	134	(240)	(2,586)
Net Income	(\$3,061M)	\$293M	(\$207M)	(\$2,575M)
Cash Flow from Operations	(\$517M)	(\$140M)	(\$179M)	(\$180M)
Year-End Stock Price	\$1.61	\$4.23	\$3.47	\$3.06

*Operating Margin defined as Gross Margin less SG&A and R&D expenses

**Acquired Technology, Special Charges, Gain on Sale of Business, Other Income/Expense, Interest Expense

***Unaudited



Financial Objectives

- > Double-digit operating margins
- > Strong cash generation & credit rating
- > Consistent revenue growth above the market
- > Improved share price

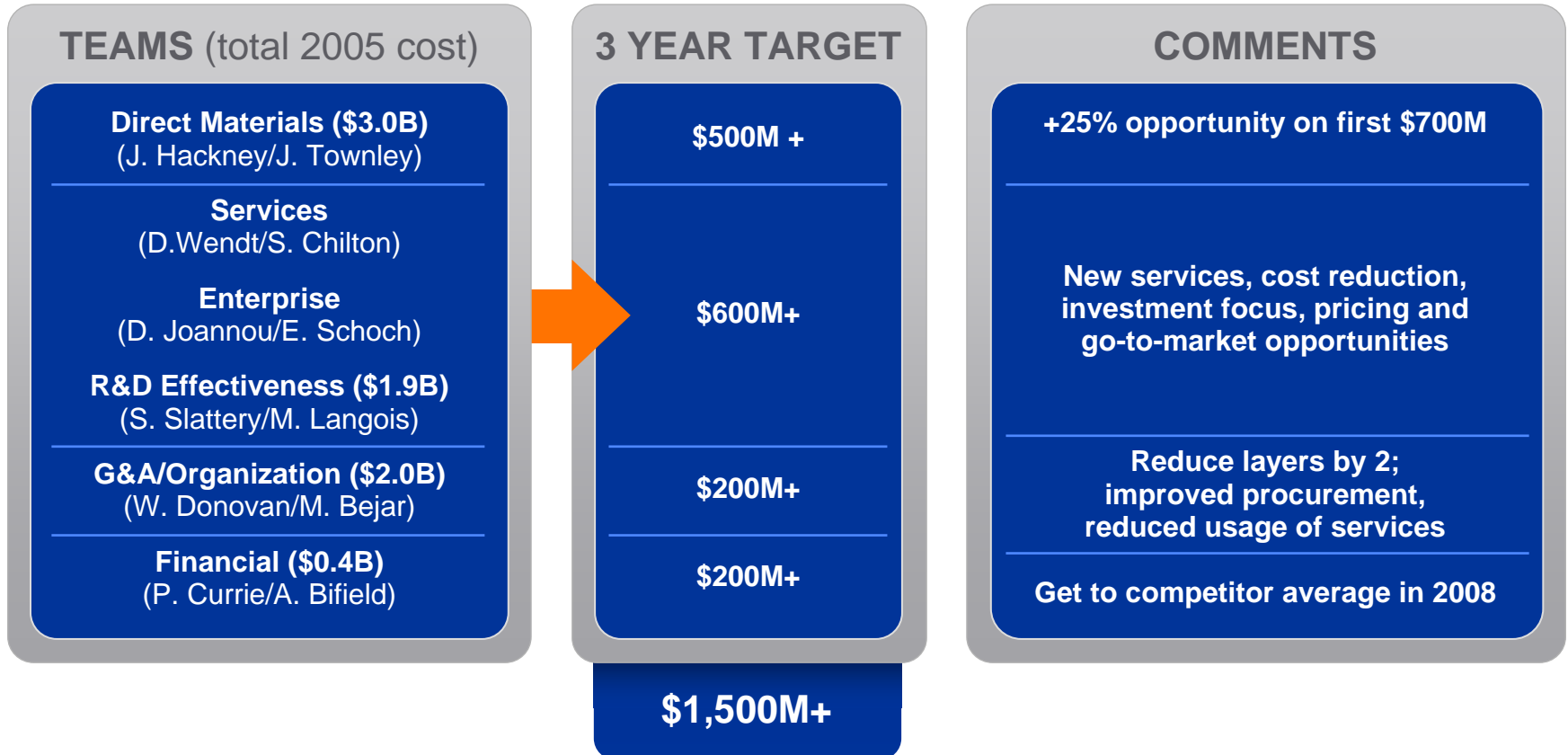
Operating Margin Target



Expansion of 300 to 500 basis points per year
in 2006, 2007, 2008 concurrently with
repositioning the business

Note: Operating Margin defined as Gross Margin less SG&A and R&D expenses

Business and Financial Transformation Teams



Significant Driver for Targeted OM Expansion

Organization

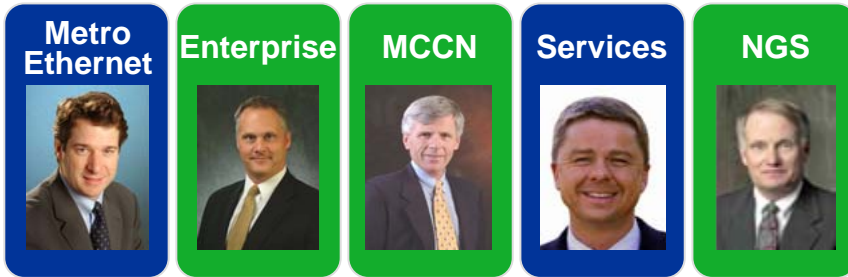


REGIONAL PRESIDENTS



Juniper McKinsey IBM GE RBC Nortel

BUSINESS PRESIDENTS



Motorola Home Depot ATT, GE Bell Canada OPG Amerada Hess Getty Oil Co. Price Waterhouse



IBM SAIC Titan Corp

LG

- New since 11/15/05 (10)
- Less than 12 months in position (5)
- More than 12 months in position (3)
- Open positions (2)



Our Plan and Framework

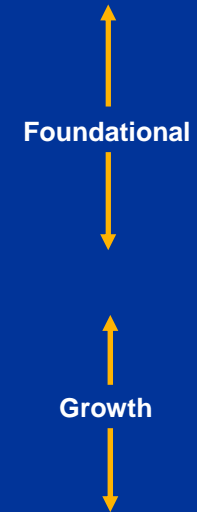
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- > III. **Product (MGPD)**
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Near Term Growth

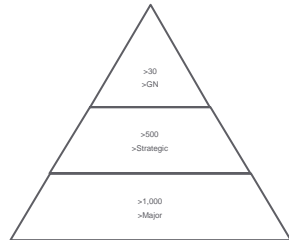
Early Steps

- > **BIG—Business Transformation, Integrity Renewal, Growth**
- > Enterprise Go-to-market
 - 5 key objectives to fundamentally change our Enterprise Trajectory
- > Services — strength to build on
 - Multi-vendor managed services 100+ customers
 - 300+ wireless networks designed, installed and launched
 - 750+ carrier VoIP installations in US alone
- > Metro Ethernet Networks
 - Business unit created, building off Nortel's Ethernet technology and marketshare leadership



Enterprise Go-to-Market

5 key objectives—new trajectory



Expand Leadership in Global Accounts

Further Penetrate Top Named Account Opportunities

Redefine Strategic Partner relationships

Leverage External Capabilities to Extend Reach

Strengthen Inside Sales channel

Estimated \$200-350M annualized revenue impact



Nortel Services

Growing the Business

MARKET OPPORTUNITIES

INTEGRATED SOLUTIONS

Reducing the lead-time, complexity and risk associated with new technology

MANAGED SERVICES

Providing Carrier and Enterprise customers with on-demand functionality

SECURITY

Removing the complexity and high costs of a multi-vendor security solution

NETWORK TRANSFORMATION

Helping customers to cost effectively evolve their networks with low risk

NORTEL BRANDED PARTNER SERVICES

Enabling our Channel Partners to deliver world-class service

SERVICE PACKAGES

- > Managed Services
- > Optimization
- > Integration
- > Security
- > Maintenance



Optical + Carrier Data Convergence

Metro Ethernet Networks

- > **Growth** – Through focused, increased investment in the high growth, high bandwidth, Metro Ethernet marketplace with increased solution synergy through stronger alignment of Optical and Data
- > **Next Gen Metro Ethernet** – Simple, low cost, flexible, deterministic, carrier grade networking that adapts to transport and data services operational models
- > **Agile Optical** – massively scaleable, flexible reach, service forecast tolerant, simpler engineering

Metro Ethernet Networks

Long Term Growth

Foundational



> New Operating Rhythm with 4 Sessions focused on:

- People
- Strategy
- Product (MGPD)
- Budget

> Session II - Strategy:

- Drives – disciplined, systematic, and periodic decision making and reviews of strategy
- Inputs – industry and market intelligence, competitive dynamics, technology shifts and disruptions
- Outputs – strategic direction and guidelines for product, portfolio and other tactical decision making

Target 20% Market Share for all Key Activities



- > 3 year target
- > Not easy decisions, balance customer requirements (#1 priority) and revenue generation lag for new opportunities
- > General guideline is to be relevant (20%; #1 or #2; satisfies strategic customer requirements; drives other parts of portfolio)



Long Term – Growth

Early steps with an eye on the future

> Investing in WiMax, IMS, Video and Metro Ethernet

> From our 6 Point Plan – to build Investor Value

- Investing for Profitable Growth
 - R&D, GTM, Brand,
- Increased Emphasis on Services and Software
 - 75% of our engineers today are software engineers

> Evaluating Potential Themes for Growth

- NG mobility (leverage technology)
- NG enterprise infrastructure (leverage installed base)
- Select NG applications and services



Summary

- > Comprehensive game plan
 - Restore Foundation
 - Recreate a Great Company
- > Committed to Integrity – forthright and transparent
- > Commitment to growth and strong financials

Passionate, Relentless Pursuit of Superior
Results and Doing the Right Thing



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