

NORTEL NETWORKS CORPORATION
Consolidated Statements of Operations (unaudited)
(U.S. GAAP; Millions of U.S. dollars, except per share amounts)

	Three months ended		
	March 31, 2006	December 31, 2005	March 31, 2005 As restated
Revenues	\$ 2,382	\$ 2,997	\$ 2,389
Cost of revenues	1,474	1,815	1,377
Gross profit	908	1,182	1,012
Selling, general and administrative expense	595	680	578
Research and development expense	478	451	474
Amortization of intangibles	5	6	2
Special charges	5	25	14
(Gain) loss on sale of businesses and assets	(35)	11	22
Shareholder litigation settlement expense	19	2,474	-
Operating earnings (loss)	(159)	(2,465)	(78)
Other income - net	69	122	54
Interest expense			
Long-term debt	(46)	(52)	(50)
Other	(24)	(4)	(3)
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies	(160)	(2,399)	(77)
Income tax benefit (expense)	(23)	102	(16)
	(183)	(2,297)	(93)
Minority interests - net of tax	9	(4)	(14)
Equity in net earnings (loss) of associated companies - net of tax	(2)	1	1
Net earnings (loss) from continuing operations	(176)	(2,300)	(106)
Net earnings from discontinued operations - net of tax	-	(2)	2
Net earnings (loss) before cumulative effect of accounting change	(176)	(2,302)	(104)
Cumulative effect of accounting change - net of tax	9	-	-
Net earnings (loss)	\$ (167)	\$ (2,302)	\$ (104)
Average shares outstanding (millions) - Basic	4,339	4,338	4,338
Average shares outstanding (millions) - Diluted	4,339	4,338	4,338
Basic and diluted earnings (loss) per common share			
- from continuing operations	\$ (0.04)	\$ (0.53)	\$ (0.02)
- from discontinued operations	0.00	0.00	0.00
Basic earnings (loss) per common share	\$ (0.04)	\$ (0.53)	\$ (0.02)

NORTEL NETWORKS CORPORATION
Consolidated Balance Sheets (unaudited)
(U.S. GAAP; Millions of U.S. dollars, except for share amounts)

	<u>March 31, 2006</u>	<u>December 31, 2005</u>	<u>March 31, 2005</u> As restated
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,695	\$ 2,951	\$ 3,430
Restricted cash and cash equivalents	77	77	81
Accounts receivable - net	2,620	2,862	2,624
Inventories - net	1,984	1,804	1,974
Deferred income taxes - net	388	377	248
Other current assets	823	796	428
Total current assets	<u>8,587</u>	<u>8,867</u>	<u>8,785</u>
Investments	246	244	287
Plant and equipment - net	1,531	1,564	1,586
Goodwill	2,680	2,592	2,260
Intangible assets - net	166	172	75
Deferred income taxes - net	3,606	3,629	3,707
Other assets	1,025	1,044	758
Total assets	<u>\$ 17,841</u>	<u>\$ 18,112</u>	<u>\$ 17,458</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other accounts payable	\$ 1,069	\$ 1,180	\$ 974
Payroll and benefit-related liabilities	778	801	460
Contractual liabilities	297	346	518
Restructuring liabilities	84	95	144
Other accrued liabilities	4,384	4,200	3,593
Long-term debt due within one year	168	1,446	1,289
Loan payable	1,300	-	-
Total current liabilities	<u>8,080</u>	<u>8,068</u>	<u>6,978</u>
Long-term debt	2,445	2,439	2,566
Deferred income taxes - net	109	104	144
Other liabilities	5,778	5,935	3,670
Total liabilities	<u>16,412</u>	<u>16,546</u>	<u>13,358</u>
Minority interests in subsidiary companies	754	780	626
SHAREHOLDERS' EQUITY			
Common shares, without par value - Authorized shares: unlimited; Issued and outstanding shares: 4,339,337,625 as of March 31, 2006 and 4,339,162,932 as of December 31, 2005	33,935	33,932	33,840
Additional paid-in capital	3,295	3,281	3,301
Accumulated deficit	(35,692)	(35,525)	(33,054)
Accumulated other comprehensive loss	(863)	(902)	(613)
Total shareholders' equity	<u>675</u>	<u>786</u>	<u>3,474</u>
Total liabilities and shareholders' equity	<u>\$ 17,841</u>	<u>\$ 18,112</u>	<u>\$ 17,458</u>

NORTEL NETWORKS CORPORATION
Consolidated Statements of Cash Flows (unaudited)
(U.S. GAAP; Millions of U.S. dollars)

	Three months ended		
	March 31, 2006	December 31, 2005	March 31, 2005 As restated
Cash flows from (used in) operating activities			
Net earnings (loss) from continuing operations	\$ (176)	\$ (2,300)	\$ (106)
Adjustments to reconcile net earnings (loss) from continuing operations to net cash from (used in) operating activities, net of effects from acquisitions and divestitures of businesses:			
Amortization and depreciation	60	69	81
Non-cash portion of shareholder litigation settlement	19	1,899	-
Non-cash portion of special charges and related asset write downs	-	24	-
Equity in net (earnings) loss of associated companies	2	(1)	(1)
Stock option compensation	25	30	18
Deferred income taxes	16	(135)	8
Other liabilities	73	38	79
(Gain) loss on sale or write down of investments, businesses and assets	(34)	(40)	27
Other - net	103	113	(107)
Change in operating assets and liabilities	(262)	420	(262)
Net cash from (used in) operating activities of continuing operations	<u>(174)</u>	<u>117</u>	<u>(263)</u>
Cash flows from (used in) investing activities			
Expenditures for plant and equipment	(99)	(82)	(54)
Proceeds on disposals of plant and equipment	87	-	-
Restricted cash and cash equivalents	3	(5)	1
Acquisitions of investments and businesses - net of cash acquired	(121)	(202)	(2)
Proceeds on sale of investments and businesses	30	162	83
Net cash from (used in) investing activities of continuing operations	<u>(100)</u>	<u>(127)</u>	<u>28</u>
Cash flows from (used in) financing activities			
Dividends paid by subsidiaries to minority interests	(18)	(10)	(14)
Increase in notes payable	4	11	20
Decrease in notes payable	(3)	(19)	(26)
Borrowings in loan payable	1,300	-	-
Repayments of long-term debt	(1,275)	-	-
Decrease in capital leases payable	(5)	(2)	(1)
Issuance of common shares	1	2	-
Net cash from (used in) financing activities of continuing operations	<u>4</u>	<u>(18)</u>	<u>(21)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	14	(16)	(35)
Net cash from (used in) continuing operations	<u>(256)</u>	<u>(44)</u>	<u>(291)</u>
Net cash from (used in) operating activities of discontinued operations	<u>-</u>	<u>(1)</u>	<u>36</u>
Net increase (decrease) in cash and cash equivalents	(256)	(45)	(255)
Cash and cash equivalents at beginning of period	2,951	2,996	3,685
Cash and cash equivalents at end of period	\$ 2,695	\$ 2,951	\$ 3,430

NORTEL NETWORKS CORPORATION
Consolidated Financial Information (unaudited)
(U.S. GAAP; Millions of U.S. dollars)

Segmented revenues

The following table summarizes our revenue by segment for:

	Three months ended		
	March 31, 2006	December 31, 2005	March 31, 2005 As restated
Revenues			
Mobility and Converged Core Networks	\$ 1,426	\$ 1,862	\$ 1,486
Enterprise Solutions and Packet Networks	871	1,028	878
Total reportable segments	<u>2,297</u>	<u>2,890</u>	<u>2,364</u>
Other	85	107	25
Total revenues	<u><u>\$ 2,382</u></u>	<u><u>\$ 2,997</u></u>	<u><u>\$ 2,389</u></u>

Geographic revenues

The following table summarizes our geographic revenues based on the location of the customer for:

	Three months ended		
	March 31, 2006	December 31, 2005	March 31, 2005 As restated
Revenues			
United States	\$ 1,132	\$ 1,363	\$ 1,219
EMEA ^(a)	631	768	673
Canada	159	138	112
Asia Pacific	301	542	264
CALA ^(b)	159	186	121
Total revenues	<u><u>\$ 2,382</u></u>	<u><u>\$ 2,997</u></u>	<u><u>\$ 2,389</u></u>

(a) Europe, Middle East and Africa

(b) Caribbean and Latin America

Network Solutions revenues

The following table summarizes our external revenues by category of network solutions for each of our reportable segments for:

	Three months ended	
	March 31, 2006	March 31, 2005 As restated
Revenues		
Mobility and Converged Core Networks		
CDMA solutions	514	534
GSM and UMTS solutions	633	713
Circuit and packet voice solutions	279	239
	<u>1,426</u>	<u>1,486</u>
Enterprise Solutions and Packet Networks		
Circuit and packet voice solutions	339	322
Optical networking solutions	250	237
Data networking and security solutions ^(a)	282	319
	<u>871</u>	<u>878</u>
Other	85	25
Total revenues	<u><u>\$ 2,382</u></u>	<u><u>\$ 2,389</u></u>

(a) Includes \$175 and \$203 of revenue from our enterprise customers for the three months ended March 31, 2006 and 2005, respectively.