





➤ **BUSINESS MADE SIMPLE**

Financial Analyst Conference Call

June 6, 2006

NORTEL

Welcome



- > Mike Zafirovski, President and CEO
- > Peter Currie, Executive Vice-President and CFO
- > Terry Glofcheskie, VP Investor Relations

Disclaimer



- > Certain statements in this press release may contain words such as “could”, “expects”, “may”, “anticipates”, “believes”, “intends”, “estimates”, “plans”, “envisions”, “seeks” and other similar language and are considered forward-looking statements or information under applicable securities legislation. These statements are based on Nortel’s current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which Nortel operates. These statements are subject to important assumptions, risks and uncertainties, which are difficult to predict and the actual outcome may be materially different.
- > Nortel has made various assumptions in the preparation of its financial outlook in this press release, including the following company specific assumptions: no further negative impact to Nortel’s results of operations, financial condition and liquidity arising from Nortel’s restatements of its financial results; Nortel’s prices increasing at or above the rate of price increases for similar products in geographic regions in which Nortel sells its products; increase in sales to Nortel’s enterprise customers and wireless service provider customers in the Asia Pacific region as a result of Nortel’s joint venture with LG Electronics Inc.; anticipated growth in sales to enterprise customers, including the full year impact to Nortel’s revenues from its acquisition of PEC Solutions, Inc., (now Nortel Government Solutions Incorporated); improvement in Nortel’s product costs due to favorable supplier pricing substantially offset by higher costs associated with initial customer deployments in emerging markets; cost reductions resulting from the completion of Nortel’s significant financial restatements and 2004 restructuring plan; a moderate increase in costs over 2005 related to investments in the finance organization and remedial measures related to Nortel’s material weaknesses in internal controls; increased employee costs relative to expected cost of living adjustments and employee bonuses offset by a significant reduction in executive recruitment and severance costs incurred in 2005; and the effective execution of Nortel’s strategy. Nortel has also made certain macroeconomic and general industry assumptions in the preparation of its financial guidance including: a modest growth rate in the gross domestic product of global economies in the range of 3.2% which is unchanged from the growth rate in 2005; global service provider capital expenditures in 2006 reflecting flat to low single digit growth as compared to low double digit growth in 2005; a general increase in demand for broadband access, data traffic and wireless infrastructure and services in emerging markets with the rate of growth in developed markets beginning to slow; and a moderate impact as a result of expected industry consolidation among service providers in various geographic regions, particularly in North America and EMEA. The above assumptions, although considered reasonable by Nortel at the date of this press release, may prove to be inaccurate and consequently Nortel’s actual results could differ materially from its expectations set out in this press release. Further, actual results or events could differ materially from those contemplated in forward-looking statements as a result of the following (i) risks and uncertainties relating to Nortel’s restatements and related matters including: Nortel’s most recent restatement and two previous restatements of its financial statements and related events; the negative impact on Nortel and NNL of their most recent restatement and delay in filing their financial statements and related periodic reports; legal judgments, fines, penalties or settlements, or any substantial regulatory fines or other penalties or sanctions, related to the ongoing regulatory and criminal investigations of Nortel in the U.S. and Canada; any significant pending civil litigation actions not encompassed by Nortel’s proposed class action settlement; any substantial cash payment and/or significant dilution of Nortel’s existing equity positions resulting from the finalization and approval of its proposed class action settlement, or if such proposed class action settlement is not finalized, any larger settlements or awards of damages in respect of such class actions; any unsuccessful remediation of Nortel’s material weaknesses in internal control over financial reporting resulting in an inability to report Nortel’s results of operations and financial condition accurately and in a timely manner; the time required to implement Nortel’s remedial measures; Nortel’s inability to access, in its current form, its shelf registration filed with the United States Securities and Exchange Commission (SEC), and Nortel’s below investment grade credit rating and any further adverse effect on its credit rating due to Nortel’s restatements of its financial statements; any adverse affect on Nortel’s business and market price of its publicly traded securities arising from continuing negative publicity related to Nortel’s restatements; Nortel’s potential inability to attract or retain the personnel necessary to achieve its business objectives; any breach by Nortel of the continued listing requirements of the NYSE or TSX causing the NYSE and/or the TSX to commence suspension or delisting procedures; (ii) risks and uncertainties relating to Nortel’s business including: yearly and quarterly fluctuations of Nortel’s operating results; reduced demand and pricing pressures for its products due to global economic conditions, significant competition, competitive pricing practice, cautious capital spending by customers, increased industry consolidation, rapidly changing technologies, evolving industry standards, frequent new product introductions and short product life cycles, and other trends and industry characteristics affecting the telecommunications industry; 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 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; high levels of debt, limitations on Nortel capitalizing on business opportunities because of credit facility covenants, or on obtaining additional secured debt pursuant to the provisions of indentures governing certain of Nortel’s public debt issues and the provisions of its credit facilities; any increase of restricted cash requirements for Nortel if it is unable to secure alternative support for obligations arising from certain normal course business activities, or any inability of Nortel’s subsidiaries to provide it with sufficient funding; any negative effect to Nortel of the need to make larger defined benefit plans contributions in the future or exposure to customer credit risks or inability of customers to fulfill payment obligations under customer financing arrangements; any negative impact on Nortel’s ability to make future acquisitions, raise capital, issue debt and retain employees arising from stock price volatility and further declines in the market price of Nortel’s publicly traded securities, or any future share consolidation resulting in a lower total market capitalization or adverse effect on the liquidity of Nortel’s common shares. For additional information with respect to certain of these and other factors, see Nortel’s Annual Report on Form 10-K/A, Quarterly Report on Form 10-Q and other securities filings with the SEC. Unless otherwise required by applicable securities laws, Nortel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Agenda

- >Q1 2006
- >Guidance Update
- >Additional Business Update
- >Q&A



Q1 2006 Highlights

US\$M



	Q1'06	Q1'05	△
Revenue	\$2.4B	\$2.4B	0%
Gross Margin	38.1%	42.4%	(4.3pts)
SG&A	25.0%	24.2%	(0.8pts)
R&D	20.1%	19.8%	(0.3pts)
Operating Expenses	\$1.1B	\$1.1B	(\$0.0)
Operating Margin*	(6.9%)	(1.7%)	(5.2pts)
Other **	\$5M	(\$37M)	(\$42M)
EBT	(\$160M)	(\$77M)	(\$83M)
Net Earnings (Loss)	(\$167M)	(\$104M)	(\$63M)
Cash Flow from (used in) Operations	(\$174M)	(\$263M)	\$89M
Period-End Stock Price	\$3.05	\$2.73	\$0.32

*Operating Margin is a non-GAAP measure defined as Gross Margin less SG&A and R&D expenses

**Amortization of Intangibles, Shareholder Settlement expenses, Special Charges, Gain of Sale of Business, Other Income/Expense, Interest Expense



Mobility and Converged Core Revenue

(US\$M)

	Q1'06	Q1'05	△
Mobility and Converged Core	1,426	1,486	(4%)
CDMA	514	534	(4%)
GSM/UMTS	633	713	(11%)
Circuit and Packet Voice	279	239	17%

- > Growth in UMTS and VoIP offset by declines in GSM, CDMA and TDM
- > Q1 2006: #2 CDMA, #1 Carrier VoIP
- > VoIP milestones: Embarq (formerly Sprint) 1 million VoIP lines and 1 million cable VoIP lines in-service
- > World's first hand-set based HSDPA network launched LG-Nortel JV and SK Telecom

Enterprise Solutions and Packet Revenue

(US\$M)



	Q1'06	Q1'05	△
Enterprise and Packet Networks	871	878	(1%)
Circuit and Packet Voice	339	322	5%
Optical Networking	250	237	5%
Data Networking and Security	282	319	(12%)

- > Growth in Enterprise Voice and Optical offset by declines in Enterprise and Carrier Data
- > Q1 2006: #1 Optical, #1 Enterprise Voice
- > Metro Ethernet Networks—meeting high-bandwidth requirements for Business, Video and Wireless Packet services

Geographic Revenue

(US\$M)



	Q1'06	Q1'05	△
North America	1,291	1,331	(3%)
EMEA	631	673	(6%)
Asia Pacific	301	264	14%
CALA	159	121	31%

> Growth in Asia and CALA offset by declines in N.A. and EMEA



Gross Margin

(US\$M)

	Q1'06	Q1'05
\$	908	1,012
% Revenue	38%	42%

- > Product mix including increased sales of next gen products—lower gross margin in early product stages
- > Q1 impacted by increased pricing pressures on certain products
- > Timing of certain contracts
- > Increased cost associated with EU RoHS compliance

SG&A

(US\$M)



	Q1'06	Q1'05
\$	595	578
% Revenue	25%	24%

> Q1'06 included:

- \$43M internal control remedial measures, investment in financial processes and restatement related activities,
- Costs associated with the consolidation of the LG JV and PEC
- Unfavorable impact of foreign exchange associated with Canadian \$ strength against the US \$
- Continued impact of cost savings resulting from 2004 restructuring plan and cost containment initiatives



R&D

(US\$M)

	Q1'06	Q1'05
\$	478	474
% Revenue	20%	20%

> Q1'06 included

- Costs associated with the consolidation of the LG JV and PEC
- Unfavorable impact of foreign exchange associated with Canadian \$ strength against the US \$
- Increased investment in targeted product areas: IMS, WiMAX, IPTV
- Savings from cost containment activities and '04 restructuring

Q1 2006 Highlights

US\$M



	Q1'06	Q1'05	△
Revenue	\$2.4B	\$2.4B	0%
Gross Margin	38.1%	42.4%	(4.3pts)
SG&A	25.0%	24.2%	(0.8pts)
R&D	20.1%	19.8%	(0.3pts)
Operating Expenses	\$1.1B	\$1.1B	(\$0.0)
Operating Margin*	(6.9%)	(1.7%)	(5.2pts)
Other **	\$5M	(\$37M)	(\$42M)
EBT	(\$160M)	(\$77M)	(\$83M)
Net Earnings (Loss)	(\$167M)	(\$104M)	(\$63M)
Cash Flow from (used in) Operations	(\$174M)	(\$263M)	\$89M
Period-End Stock Price	\$3.05	\$2.73	\$0.32

*Operating Margin is a non-GAAP measure defined as Gross Margin less SG&A and R&D expenses

**Amortization of Intangibles, Shareholder Settlement expenses, Special Charges, Gain of Sale of Business, Other Income/Expense, Interest Expense



Significant Impact Items

(US\$M, except for per share figures)

	Q1'06	IMPACT PER DILUTED SHARE
Shareholder Lawsuit Expense	(19)	(\$0.004)
Bookham / Assets	63	\$0.01
Finance Transform and Governance	(43)	(\$0.01)
Restructuring Charges	(5)	(\$0.00)

Cash Flow

(US\$M)

Net Cash – Beginning of Period

From (used in) operating activities

Investing Activities

Financing Activities

F/X Effect

Change in cash

Net Cash – End of Period

Q1
2006

2,951

(174)

(100)

4

14

(256)

2,695



Operating Metrics

(US\$M)



	Q1'06	Q4'05
DSO (Days)	99	86
NID (Days)	165	132
DPO (Days)	64	58
Deferred Revenue	\$3,7B	\$3,6B
Book to Bill	1.1	1.1
Order Backlog	\$5.7B	\$5.4B



Guidance

> Full year 2006

- We expect strong revenue momentum for the rest of 2006, resulting in high single digit growth for the full year 2006 compared to 2005.
- For the full year, we expect gross margins to be around 40% as a percentage of revenues and
- Operating expenses flat to up slightly from 2005, with foreign exchange and growth related expenses off-setting productivity and efficiencies.

> Q2 2006

- For the second quarter of 2006, we expect revenue, gross margin and operating expenses to support our full year guidance.



Our Plan and Framework

Near term, Long term and Foundational

BIG – NEAR TERM PRIORITIES

- > 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

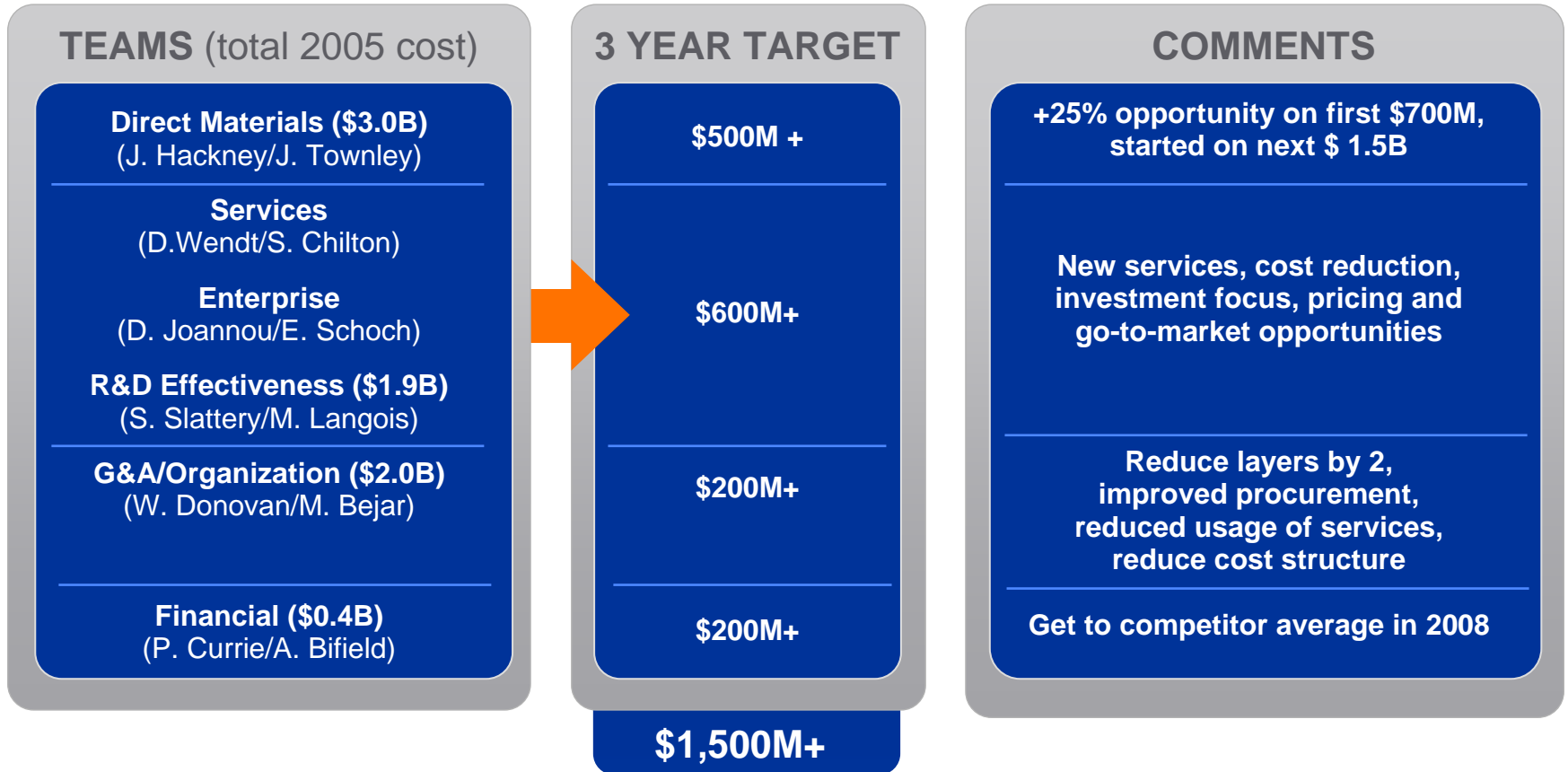
Foundational

Growth

OPERATING RHYTHM – FOUNDATIONAL

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

Business and Financial Transformation Teams



Significant Driver for Targeted OM Expansion



Integrity Renewal

- > Current in financial reporting
- > New code of conduct
- > Adherence to spirit and letter of code of conduct expected from all, along with consistent, prompt action
- > Remedial action plans submitted to the SEC
- > Management and board renewal, along with contemporary corporate governance

Consistent, Strong Progress



Near Term Growth

Early Steps

- > **BIG - 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 and Optical technology and marketshare leadership
- > Increased investments in video, IMS and WiMAX



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



Q&A

NORTEL