



> Q1 2007 Financial Results Conference Call

May 3, 2007



Welcome



- > Mike Zafirovski, President and CEO
- > David Drinkwater, CFO, interim basis
- > Terry Glofcheskie, VP Investor Relations

Disclaimer



Certain statements in this presentation may contain words such as “could”, “expects”, “may”, “anticipates”, “believes”, “intends”, “estimates”, “targets”, “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 presentation, 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.; improvement in Nortel’s product costs due to favorable supplier pricing, offset by higher costs associated with initial customer deployments in emerging markets; cost reductions resulting from the 2007 and 2006 restructuring plans; increased employee costs relative to expected cost of living adjustments and employee bonuses; and the effective execution of Nortel’s strategy, including implementation of its Business Transformation initiatives in 2007. Nortel has also made certain macroeconomic and general industry assumptions in the preparation of its financial guidance including: a modest decrease in the growth rate of the gross domestic product of global economies which is lower than the growth rate in 2006; global service provider capital expenditures in 2007 reflecting mid to high single digit growth as compared to high single digit growth in 2006; global growth rate to remain stable with investments in next generation products and services to offset declines in purchases of legacy equipment; 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 presentation, may prove to be inaccurate and consequently Nortel’s actual results could differ materially from its expectations set out in this presentation.

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 business including: significant competition, competitive pricing practice, cautious capital spending by customers, 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, adverse affects on Nortel’s performance if its expectations regarding market demand for particular products prove to be wrong; the sufficiency of recently announced restructuring actions; any negative developments associated with Nortel’s suppliers and contract manufacturing agreements including our reliance on certain suppliers for key optical networking solutions components; potential penalties, damages or cancelled customer contracts from failure to meet delivery and installation deadlines and any defects or errors in Nortel’s current or planned products; fluctuations in foreign currency exchange rates; potential higher operational and financial risks associated with Nortel’s efforts to expand internationally; potential additional valuation allowances for all or a portion of Nortel’s deferred tax assets if market conditions deteriorate or future results of operations are less than expected; a failure to protect Nortel’s intellectual property rights, or any adverse judgments or settlements arising out of disputes regarding intellectual property; any negative effect of a failure to maintain integrity of Nortel’s information systems; changes in regulation of the telecommunications industry or other aspects of the industry; any failure to successfully operate or integrate strategic acquisitions, or failure to consummate or succeed with strategic alliances; Nortel’s potential inability to attract or retain the personnel necessary to achieve its business objectives or to maintain an effective risk management strategy; (ii) risks and uncertainties relating to Nortel’s liquidity, financing arrangements and capital including: 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 senior notes covenants, or on obtaining additional secured debt pursuant to the provisions of indentures governing certain of Nortel’s public debt issues; Nortel’s below investment grade credit rating; 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; or any negative impact on Nortel’s ability to make future acquisitions, raise capital, issue debt and retain employees arising from stock price volatility and any declines in the market price of Nortel’s publicly traded securities; and (iii) risks and uncertainties relating to Nortel’s prior restatements and related matters including: any negative impact on Nortel and NNL of such restatement; 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; the significant dilution of Nortel’s existing equity positions resulting from the approval of its class action settlement; any significant pending or future civil litigation actions not encompassed by Nortel’s class action settlement; any unsuccessful remediation of Nortel’s material weakness 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; Nortel’s inability to access, in its current form, its shelf registration filed with the United States Securities and Exchange Commission (SEC); or 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. For additional information with respect to certain of these and other factors, see Nortel’s Annual Report on Form 10-K 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.

Non-GAAP Measures



This presentation includes the following non-GAAP measures: Operating Margin is a non-GAAP measure defined as Gross Profit less SG&A and R&D expenses. Operating Margin percentage is a non-GAAP measure defined as Operating Margin divided by Revenue. Nortel's management believes that these measures are meaningful measurements of operating performance and provides greater transparency to investors with respect to Nortel's performance and supplemental information used by management in its financial and operational decision making. These non-GAAP measures may also facilitate comparisons to Nortel's historical performance and our competitors' operating results. No reconciliation of the projected non-GAAP measure is provided to the comparable projected GAAP measure because Nortel does not predict special items that might occur in the future, and Nortel's forecasts are developed at a level of detail different than that used to prepare GAAP-based financial measures. Thus, such a reconciliation is not available without unreasonable efforts.

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.

These non-GAAP measures should be considered in addition to, but not as a substitute for, the information contained in our financial statements prepared in accordance with GAAP. These measures may not be synonymous to similar measurement terms used by other companies.

The Company's financial outlook contains forward-looking information and as such, is based on certain assumptions, and is subject to important risk factors and uncertainties (which are summarized at the start of this presentation) that could cause actual results or events to differ materially from this outlook.



Agenda

1 General Update

2 Q1 2007 Financials

3 Outlook

4 Plans / Priorities

5 Q&A

Q1 2007 General Update

- > Revenues +4% driven by growth in Enterprise, CDMA, and MEN
 - Revenues +12% excluding UMTS Access Divestiture
 - Deferred Revenue flat to Q4'06 and down \$0.3B YoY
- > Orders -3% due to UMTS Access Divestiture
 - Orders +4% excluding divestiture impact
- > Book to Bill 1.04, Backlog up \$103M to \$5.3B QoQ
- > Gross Margin at 40.4%
 - Highest gross margin in 7 quarters
- > Operating Margin -0.4% in Q1'07, up over 640 basis points YoY
- > Operating Cash Flow for Q1'07 was outflow of \$561M, positive at \$24M* excluding the impact of the shareholder litigation finalization
- > Completed \$1.15B convertible debt offering
 - Pro-actively addressing \$1.8B convertible
- > Key Customer Endorsement – Wind Telecom (WiMAX), HKE (Optical), International SOS (UC)
- > Key Technology/Innovation Endorsement – UC for SMBs, IBM Lotus Notes
- > Progressing Business Transformation Initiatives to Achieve Target

Customers Investing in the Future

Selected Wins



- **Enterprise**
 - New York Times
 - Guangzhou WTC
 - International SOS
 - Canadian Specialist Hospital
 - Hospital de Madrid Group
- **Carrier**
 - Craig Wireless
 - Mobile Satellite Ventures
 - TVA (Brazil)
 - Wind Telecom
 - Réseau Ferré de France
 - Austrian Railways
- **Metro Ethernet**
 - BT
 - PowerTel
 - HKE
- **Services**
 - Eastman Kodak Company
 - Rolls Royce
 - Trinity Railway Express
 - Geisinger Health System
 - Timken
- **NGS**
 - Native American Industrial Distributors
 - US Army Corps of Engineers

Orders

US\$M

	Q1'07	Q1'06	Δ	UMTS Adjusted Δ
North America	\$1,463	\$1,397	5%	5%
EMEA	\$546	\$763	(28%)	(7%)
Asia	\$467	\$344	36%	36%
CALA	\$110	\$154	(29%)	(29%)
Total	\$2,586	\$2,658	(3%)	4%
UMTS Access Divestiture	-	(\$175)	-	-
Total Adjusted*	\$2,586	\$2,483	4%	

- > Order Input decreased year over year due to UMTS Access divestiture
 - Growth was 4% excluding divestiture impact* (~\$175M)
- > Book to Bill 1.04 – Drivers:
 - Higher Services and CDMA Rev A Orders
- > Backlog up \$0.1B to \$5.3B sequentially
- > Deferred Revenues flat sequentially at \$3.4B

* First quarter of 2006 included orders of ~\$175 million that related to the UMTS Access business that was sold on December 31, 2006.

Q1 2007 Financial Highlights

US\$M



	Q1'07	Q1'06	△
Revenue	\$2.5B	\$2.4B	4%
Gross Margin	40.4%	38.7%	170 bps
SG&A	24.3%	25.5%	120 bps
R&D	16.5%	20.0%	350 bps
Operating Expenses	\$1.0B	\$1.1B	7%
Operating Margin*	-0.4%	-6.9%	642 bps
Other**	\$57M	-\$5M	-\$62M
EBT***	(\$68M)	(\$159M)	\$91M
Net Earnings / (Loss)	(\$103M)	(\$171M)	\$68M
Cash Flow from (used in) Ops	(\$561M)	(\$174M)	(\$387M)
Adjusted Cash Flow from Ops	\$24M	(\$174M)	\$198M
Period-End Stock Price****	\$26.73	\$30.60	(\$3.87)

*See chart titled "Non-GAAP Measures"

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

***Earnings before income taxes, minority interests and equity in net earnings (loss) of associated companies

****NYSE Price

Carrier Networks Revenue

US\$M



	Q1'07	Q1'06	△
Carrier Networks	1,009	1,071	(6%)
CDMA	568	439	29%
GSM/UMTS	271	436	(38%)
Circuit and Packet Voice	170	196	(13%)
UMTS Access Divestiture	-	(110)	-
Carrier Networks - Adjusted*	1,009	961	5%

- > Carrier Networks decreased 6% primarily due to UMTS Access divestiture
 - Growth was 5% excluding divestiture impact* (\$110M)
- > CDMA: Growth driven primarily in N.A. by EV-DO Rev A
- > GSM/UMTS: Divestiture impact and strong Q106 CALA sales
- > Circuit and Packet Voice: Slow capex in N. America, strong 2H planned with introduction of new releases

*See chart titled "Non-GAAP Measures"



Enterprise Networks Revenue

US\$M

	Q1'07	Q1'06	△
Enterprise Networks	597	455	31%
Circuit Packet Voice Solutions	375	327	15%
Data Networking & Security Solutions	222	128	73%

- > Strong Q1 Performance following strong Q4'06
- > Circuit and Packet Voice:
 - Increased in N. America due to BCM momentum
 - Increase in EMEA due to F/X and growth in IVR, contact centre and messaging
- > Data Networking and Security:
 - Growth in N. America and EMEA due to Ethernet Switching and completion of significant contracts (with previously deferred revenues)
 - Growth was 37% excluding deferred revenues recognition impact



Global Services Revenue

US\$M

	Q1'07	Q1'06	△
Global Services	448	506	(11%)
UMTS Access Divestiture	-	(64)	-
Global Services - Adjusted*	448	442	1%

- > Global Services revenues revised to include all Network Integration Services (NIS)
 - 2006 Global Service revenues were \$2.2B
- > Q1'07 Revenues impacted by UMTS Access Divestiture particularly in NIS
 - Revenue was flat YoY excluding divestiture impact* (\$64M)
- > Launched 11 new integration services to ease customer path to Unified Communications
- > Introduced 2 new mobile solutions to Nortel Healthcare Solutions
- > Expect to grow faster than the market in 2007 / Q1 book to bill at 1.4

*See chart titled "Non-GAAP Measures"



Metro Ethernet Networks Revenue

US\$M

	Q1'07	Q1'06	△
Metro Ethernet Networks	373	293	27%
Optical Networking	263	212	25%
Data Networking and Security	110	81	34%

> Optical Networking

- Growth through a significant contract completion in EMEA and momentum in CALA
- Continued traction with Comcast and MSO market

> Data Networking and Security

- Benefited from the completion of a significant contract (with previously deferred revenues)
- PBT standardization progressing well / Many trials in progress

Geographic Revenue

US\$M



	Q1'07	Q1'06	△	UMTS Adjusted △
North America	1,389	1,290	8%	8%
EMEA	578	633	(9%)	26%
Asia	382	305	25%	25%
CALA	134	162	(17%)	(17%)
Total	2,483	2,390	4%	12%
UMTS Access Divestiture	-	(175)	-	-
Total Adjusted	2,483	2,215	12%	

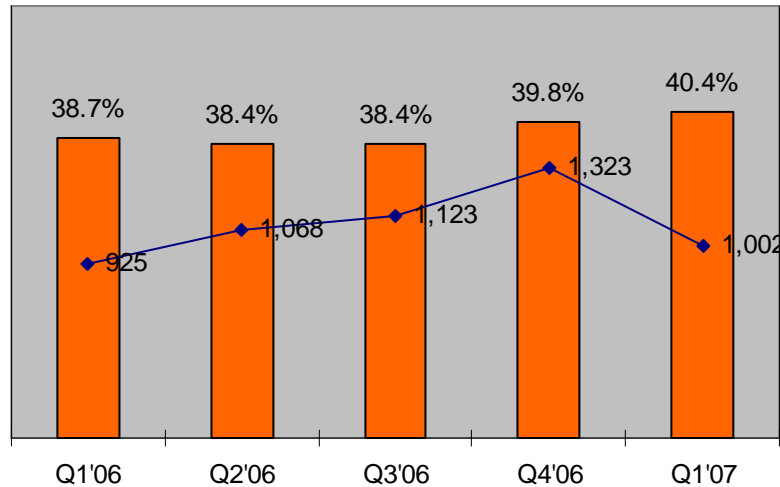
- > Strong growth in N. America and Asia driven by Enterprise, CDMA and LG-JV
- > EMEA negatively impacted by the divestiture of UMTS Access
 - Growth was 26% excluding divestiture impact* (\$175M)
- > CALA decreases in Carrier Networks partially offset by MEN

*See chart titled "Non-GAAP Measures"



Gross Margin

US\$M

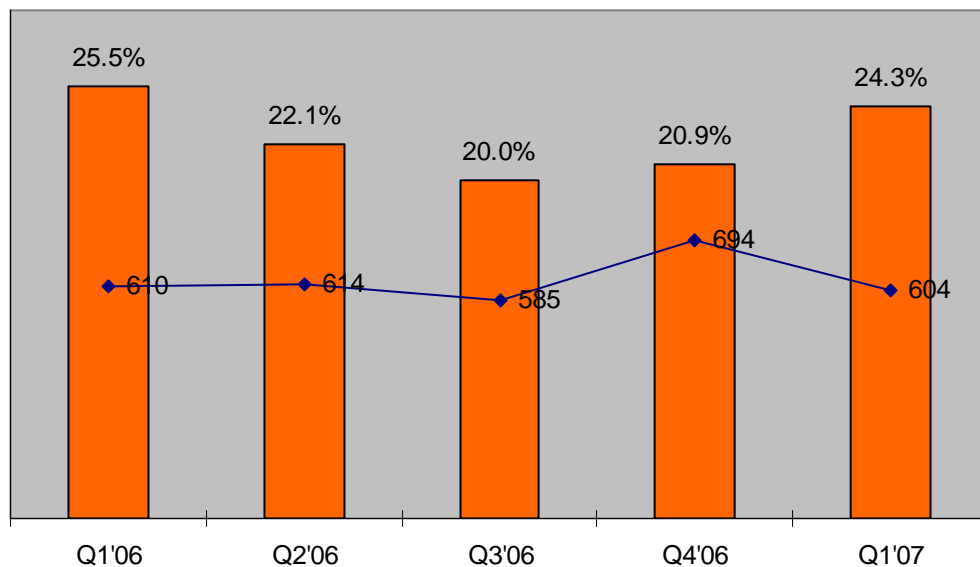


	Q1'07	Q1'06	Δ
GM - \$	1,002	925	77
GM - % Rev	40.4%	38.7%	170 bps

- > Improved Sequential and YoY GM% - highest in seven quarters
- > Double Digit Productivity
- > Also, benefiting from favourable product mix in Carrier Networks including strong CDMA and divestiture of UMTS, and Enterprise
- > Partially offset by the recognition of previously deferred, low margin revenues in Optical and Data Networking

SG&A

US\$M



	Q1'07	Q1'06	Δ
SG&A	604	610	6
%Rev	24.3%	25.5%	120 bps

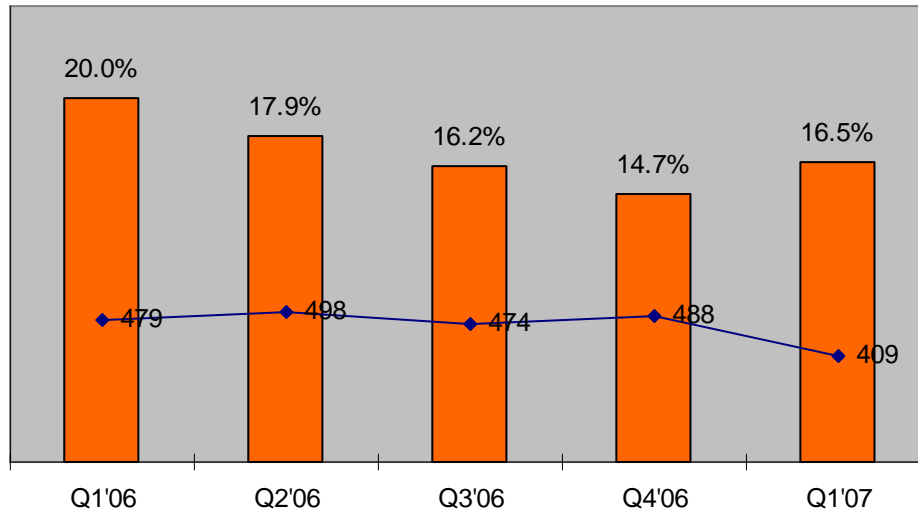
> Q1'07 included:

- Cost savings as a result of the UMTS divestiture and lower corporate costs
- Partially offset by higher variable compensation costs and foreign exchange



R&D

US\$M



	Q1'07	Q1'06	Δ
R&D - \$	409	479	70
R&D - %Rev	16.5%	20.0%	350 bps

> Q1'07 included

- Costs savings as a result of the UMTS divestiture (\$53M) and lower employee related costs
- Partially offset by foreign exchange and higher bonus accruals



Other Items

(US\$M)

	Q1'07	Q1'06	△
Other (Income) / Expense	(76)	(56)	36%
Interest Expense	96	61	57%
Minority Interest	22	(6)	(467%)

- Other Income increased due to higher interest, royalty, and sub-lease income
- Interest Expense increase due to the higher debt levels and borrowing costs
- Increased Minority Interest expense related to LG-JV



Significant Impact Items

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

	Q1'07	IMPACT PER DILUTED SHARE
Shareholder Settlement Gain Mark to Market Adjustment	54	\$0.12
Restructuring Charges	(80)	(\$0.18)

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

<u>Q1'07</u>	<u>Q4'06</u>
3,492	2,600
(561)	520
500	343
1,118	(6)
6	35
1,063	892
4,555	3,492

- Operating Cash Flow - shareholder settlement impact \$585M
 - Operating cash flow excluding settlement was inflow of \$24M *
 - Better than Q1'06 by \$198M

*See chart titled "Non-GAAP Measures"

Operating Metrics

US\$M



	Q1'07	Q4'06	Q1'06
DSO (Days)	86	75	97
NID (Days)	27	22	39
DPO (Days)	62	49	65
Deferred Revenue	\$3.4B	\$3.4B	\$3.7B
Book to Bill	1.04	1.11	1.12
Order Backlog	\$5.3B	\$5.2B	\$5.7B

Outlook



Full Year 2007

- > For the full year 2007, we continue to expect revenues to be flat to down slightly compared to 2006, reflecting a decrease in revenues as a result of the UMTS Access disposition (note that 2006 UMTS Access revenues associated with the assets sold was approximately \$660 million). We expect full year 2007 gross margin to be in the low 40's, as a percentage of revenues, and operating margin* to be at 5 percent, or higher, of revenues.

Q2 2007

- > For the second quarter of 2007, we expect revenues to be flat to down slightly compared to the year ago quarter (note that second quarter 2006 UMTS Access revenues associated with the assets sold was approximately \$195 million). We expect second quarter of 2007 gross margin to be around 40, as a percentage of revenue, and operating expenses (SG&A and R&D) to be down by high single digits, compared to the year ago quarter.

*See chart titled "Non-GAAP Measures"



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

Q1 Update :

Business Transformation Progress

BT TEAMS

Direct Materials (Supply Chain)
(J. Hackney/J. Townley)

Service & Operations
(D. Wendt/J. Hackney/S. Chilton)

Revenue Stimulation & Pricing
(D. Joannou/E. Schoch)

R&D
(Product presidents/H. Graham)

G&A/Organization
(D. Carey/B. Donovan)

Financial
(D. Drinkwater/A Bifield)

2008 TARGET

\$425M +

\$250M+

\$200M+

\$225M+

\$200M+

\$200M+

\$1,500M+

SAVINGS DRIVERS

- Flextronics Agreement Amended
- Wave 1&2 contracts / **Wave 3 started**
- Logistics opportunity identified
- Mexico operational, Turkey open
- **New Partner & Maintenance Services**
- Cost reduction initiatives proving out
- Go to Market – strong funnel
- Global Pricing complete
- Clean Sheet phase 1&2 done / 3 started
- USDRP Momentum
- Low Cost Centres
- Pension
- Spans & Layers
- Shared Services
- SAP Implementation
- Finance business and process transformation
- Benchmarking

Delivered \$100M+ total savings in Q1 2007



Summary

- > Solid Q1... top line, margin, cash
- > Committed to delivering profitability model
- > Integrity—forthright and transparent communications
- > Focused growth strategy

Strong Progress in Q1'07
Solid Footing – Strengthening Company throughout 2007



> Q&A