

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

	Three months ended		
	March 31, 2007	December 31, 2006	March 31, 2006
Revenues:			
Products	\$ 2,169	\$ 3,016	\$ 2,088
Services	314	306	302
	<u>2,483</u>	<u>3,322</u>	<u>2,390</u>
Cost of revenues			
Products	1,303	1,822	1,296
Services	178	177	169
	<u>1,481</u>	<u>1,999</u>	<u>1,465</u>
Gross profit	1,002	1,323	925
Selling, general and administrative expense	604	694	610
Research and development expense	409	488	479
Operating Margin <sup>(a)</sup>	<u>(11)</u>	<u>141</u>	<u>(164)</u>
Amortization of intangibles	12	7	5
In-process research and development expense	-	6	-
Special charges	80	29	5
Gain on sale of businesses and assets	(1)	(164)	(39)
Shareholder litigation settlement expense (recovery)	(54)	234	19
Operating earnings (loss)	<u>(48)</u>	<u>29</u>	<u>(154)</u>
Other income - net	76	34	56
Interest expense			
Long-term debt	(85)	(84)	(45)
Other	(11)	(13)	(16)
Loss from operations before income taxes, minority interests and equity in net earnings (loss) of associated companies	<u>(68)</u>	<u>(34)</u>	<u>(159)</u>
Income tax benefit (expense)	<u>(13)</u>	<u>9</u>	<u>(25)</u>
	<u>(81)</u>	<u>(25)</u>	<u>(184)</u>
Minority interests - net of tax	(22)	(58)	6
Equity in net earnings (loss) of associated companies - net of tax	-	3	(2)
Net loss before cumulative effect of accounting change	<u>(103)</u>	<u>(80)</u>	<u>(180)</u>
Cumulative effect of accounting change - net of tax	-	-	9
Net loss	<u>\$ (103)</u>	<u>\$ (80)</u>	<u>\$ (171)</u>
Average shares outstanding (millions) - Basic <sup>(b)</sup>	442	434	434
Average shares outstanding (millions) - Diluted <sup>(b)</sup>	442	434	434
Basic and diluted loss per common share	<u>\$ (0.23)</u>	<u>\$ (0.19)</u>	<u>\$ (0.39)</u>

(a) Operating Margin is a non-GAAP measure defined as Gross Profit less SG&A and R&D expenses. Nortel's management believes that this measure is a meaningful measurement 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. This non-GAAP measure may also facilitate comparisons to Nortel's historical performance and our competitors' operating results. 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. This measure may not be synonymous to similar measurement terms used by other companies.

(b) Reflects the consolidation of the outstanding Nortel common shares at a ratio of 1 consolidated share for 10 pre-consolidated shares effective December 1, 2006.