

NORTEL NETWORKS CORPORATION
Consolidated Statements of Operations (unaudited)

<i>(US GAAP; millions of U.S. dollars, except per share amounts)</i>	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Revenues	\$ 2,855	\$ 2,590	\$ 5,391	\$ 5,034
Cost of revenues	1,620	1,535	3,099	2,926
Gross profit	1,235	1,055	2,292	2,108
Selling, general and administrative expense	579	542	1,153	1,084
Research and development expense	479	493	953	964
Amortization of intangibles	2	2	4	5
Special charges	90	(1)	111	6
(Gain) loss on sale of businesses and assets	36	(75)	37	(75)
Operating earnings (loss)	49	94	34	124
Other income (expense) - net	58	(18)	104	68
Interest expense				
Long-term debt	(51)	(43)	(101)	(87)
Other	(1)	(7)	(4)	(15)
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net earnings				
(loss) of associated companies	55	26	33	90
Income tax benefit (expense)	7	(7)	(9)	2
	62	19	24	92
Minority interests - net of tax	(17)	(8)	(31)	(22)
Equity in net earnings (loss) of associated companies - net of tax	1	(1)	2	(2)
Net earnings (loss) from continuing operations	46	10	(5)	68
Net earnings (loss) from discontinued operations - net of tax	(1)	6	1	7
Net earnings (loss)	\$ 45	\$ 16	\$ (4)	\$ 75
Average shares outstanding ('000s) - Basic	4,337,561	4,337,514	4,337,537	4,336,044
Average shares outstanding ('000s) - Diluted	4,338,368	4,355,577	4,338,509	4,367,201
Basic earnings (loss) per common share				
- from continuing operations	\$ 0.01	\$ 0.00	\$ (0.00)	\$ 0.02
- from discontinued operations	(0.00)	0.00	0.00	0.00
Basic earnings (loss) per common share	\$ 0.01	\$ 0.00	\$ (0.00)	\$ 0.02
Diluted earnings (loss) per common share				
- from continuing operations	\$ 0.01	\$ 0.00	\$ (0.00)	\$ 0.02
- from discontinued operations	(0.00)	0.00	0.00	0.00
Diluted earnings (loss) per common share	\$ 0.01	\$ 0.00	\$ (0.00)	\$ 0.02

Please refer to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 including the Notes to the Consolidated Financial Statements

NORTEL NETWORKS CORPORATION
Consolidated Balance Sheets (unaudited)

	June 30, 2005	December 31, 2004
<i>(US GAAP; millions of U.S. dollars, except for share amounts)</i>		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,060	\$ 3,686
Restricted cash and cash equivalents	73	80
Accounts receivable - net	2,735	2,551
Inventories - net	1,315	1,414
Deferred income taxes - net	259	255
Other current assets	519	356
Total current assets	7,961	8,342
Investments	154	159
Plant and equipment - net	1,581	1,651
Goodwill	2,522	2,303
Intangible assets - net	154	78
Deferred income taxes - net	3,632	3,736
Other assets	578	715
Total assets	\$ 16,582	\$ 16,984
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other accounts payable	\$ 1,144	\$ 996
Payroll and benefit-related liabilities	593	515
Contractual liabilities	436	569
Restructuring liabilities	143	254
Other accrued liabilities	2,641	2,823
Long-term debt due within one year	1,449	15
Total current liabilities	6,406	5,172
Long-term debt	2,438	3,862
Deferred income taxes - net	151	144
Other liabilities	3,329	3,189
Total liabilities	12,324	12,367
Minority interests in subsidiary companies	636	630
Guarantees, commitments and contingencies		
SHAREHOLDERS' EQUITY		
Common shares, without par value - Authorized shares: unlimited;		
Issued and outstanding shares: 4,272,927,727 as of June 30, 2005		
and 4,272,671,213 as of December 31, 2004	33,844	33,840
Additional paid-in capital	3,316	3,282
Accumulated deficit	(32,587)	(32,583)
Accumulated other comprehensive income (loss)	(951)	(552)
Total shareholders' equity	3,622	3,987
Total liabilities and shareholders' equity	\$ 16,582	\$ 16,984

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NORTEL NETWORKS CORPORATION
Consolidated Statements of Cash Flows (unaudited)

<i>(US GAAP; millions of U.S. dollars)</i>	Three Months ended,	Six months ended June 30,	
	June 30, 2005	2005	2004
Cash flows from (used in) operating activities			
Net earnings (loss) from continuing operations	\$ 46	\$ (5)	\$ 68
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	78	160	171
Non-cash portion of special charges and related asset write downs	2	2	-
Equity in net (earnings) loss of associated companies - net of tax	(1)	(2)	2
Stock option compensation	18	37	36
Deferred income taxes	6	14	(2)
Other liabilities	101	179	113
(Gain) loss on sale or write down of investments, businesses and assets	15	21	(109)
Other - net	48	(57)	119
Change in operating assets and liabilities	(209)	(508)	(655)
Net cash from (used in) operating activities of continuing operations	104	(159)	(257)
Cash flows from (used in) investing activities			
Expenditures for plant and equipment	(65)	(119)	(102)
Proceeds on disposals of plant and equipment	10	10	10
Restricted cash and cash equivalents	8	9	10
Acquisitions of investments and businesses - net of cash acquired	(446)	(448)	(6)
Proceeds on sale of investments and businesses	84	167	132
Net cash from (used in) investing activities of continuing operations	(409)	(381)	44
Cash flows from (used in) financing activities			
Dividends paid by subsidiaries to minority interests	(10)	(24)	(16)
Increase in notes payable	18	38	41
Decrease in notes payable	(20)	(46)	(26)
Repayments of long-term debt	-	-	(98)
Repayments of capital leases payable	(3)	(4)	(8)
Issuance of common shares	1	1	30
Net cash from (used in) financing activities of continuing operations	(14)	(35)	(77)
Effect of foreign exchange rate changes on cash and cash equivalents	(50)	(85)	(9)
Net cash from (used in) continuing operations	(369)	(660)	(299)
Net cash from (used in) in operating activities of discontinued operations	(2)	34	11
Net increase (decrease) in cash and cash equivalents	(371)	(626)	(288)
Cash and cash equivalents at beginning of period	3,431	3,686	3,997
Cash and cash equivalents at end of period	\$ 3,060	\$ 3,060	\$ 3,709

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Segment revenues

The following table summarizes our revenues for the three and six months ended June 30 2005 and 2004, by segment:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Revenues				
Carrier Packet Networks	\$ 743	\$ 724	\$ 1,407	\$ 1,407
CDMA Networks	662	567	1,197	1,136
GSM and UMTS Networks	719	711	1,507	1,367
Enterprise Networks	730	578	1,277	1,112
Total reportable segments	2,854	2,580	5,388	5,022
Other	1	10	3	12
Total revenues	\$ 2,855	\$ 2,590	\$ 5,391	\$ 5,034

“Other” represented miscellaneous business activities and corporate functions.

Geographic revenues

The following table summarizes our geographic revenues for the three and six months ended June 30 2005 and 2004, based on the location of the customer:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Revenues				
United States	\$ 1,397	\$ 1,322	\$ 2,543	\$ 2,539
EMEA ^(a)	721	643	1,443	1,239
Canada	183	137	297	291
Asia Pacific	412	330	814	677
CALA ^(b)	142	158	294	288
Consolidated	\$ 2,855	\$ 2,590	\$ 5,391	\$ 5,034

(a) The Europe, Middle East and Africa region, or EMEA.

(b) The Caribbean and Latin America region, or CALA.

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