

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

	Three months ended			Six months ended	
	June 30, 2006	March 31, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	As restated			As restated	
Revenues	\$ 2,744	\$ 2,382	\$ 2,619	\$ 5,126	\$ 5,008
Cost of revenues	1,678	1,474	1,485	3,152	2,862
Gross profit	1,066	908	1,134	1,974	2,146
Selling, general and administrative expense	596	595	588	1,191	1,166
Research and development expense	489	478	488	967	962
Amortization of intangibles	6	5	2	11	4
In-process research and development expense	16	-	-	16	-
Special charges	45	5	92	50	106
(Gain) loss on sale of businesses and assets	10	(35)	11	(25)	33
Shareholder litigation settlement (recovery) expense	(510)	19	-	(491)	-
Operating earnings (loss)	414	(159)	(47)	255	(125)
Other income - net	51	69	74	120	128
Interest expense					
Long-term debt	(59)	(46)	(51)	(105)	(101)
Other	(11)	(24)	(1)	(35)	(4)
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies	395	(160)	(25)	235	(102)
Income tax benefit (expense)	(27)	(23)	9	(50)	(7)
Minority interests - net of tax	1	9	(17)	10	(31)
Equity in net earnings (loss) of associated companies - net of tax	(3)	(2)	1	(5)	2
Net earnings (loss) from continuing operations	366	(176)	(32)	190	(138)
Net earnings (loss) from discontinued operations - net of tax	-	-	(1)	-	1
Net earnings (loss) before cumulative effect of accounting change	366	(176)	(33)	190	(137)
Cumulative effect of accounting change - net of tax	-	9	-	9	-
Net earnings (loss)	\$ 366	\$ (167)	\$ (33)	\$ 199	\$ (137)
Average shares outstanding (millions) - Basic	4,339	4,339	4,338	4,339	4,338
Average shares outstanding (millions) - Diluted	4,340	4,339	4,338	4,342	4,338
Basic and diluted earnings (loss) per common share					
- from continuing operations	\$ 0.08	\$ (0.04)	\$ (0.01)	\$ 0.05	\$ (0.03)
- from discontinued operations	0.00	0.00	(0.00)	0.00	0.00
Basic earnings (loss) per common share	\$ 0.08	\$ (0.04)	\$ (0.01)	\$ 0.05	\$ (0.03)

Please refer to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 including the Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	<u>June 30, 2006</u>	<u>March 31, 2006</u>	<u>December 31, 2005</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,904	\$ 2,695	\$ 2,951
Restricted cash and cash equivalents	646	77	77
Accounts receivable - net	2,785	2,620	2,862
Inventories - net	2,035	1,984	1,804
Deferred income taxes - net	348	388	377
Other current assets	833	823	796
Total current assets	<u>8,551</u>	<u>8,587</u>	<u>8,867</u>
Investments	209	246	244
Plant and equipment - net	1,574	1,531	1,564
Goodwill	2,588	2,680	2,592
Intangible assets - net	205	166	172
Deferred income taxes - net	3,728	3,606	3,629
Other assets	971	1,025	1,044
Total assets	<u>\$ 17,826</u>	<u>\$ 17,841</u>	<u>\$ 18,112</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other accounts payable	\$ 1,065	\$ 1,069	\$ 1,180
Payroll and benefit-related liabilities	861	778	801
Contractual liabilities	258	297	346
Restructuring liabilities	111	84	95
Other accrued liabilities	4,517	4,384	4,200
Long-term debt due within one year	18	168	1,446
Loan Payable	-	1,300	-
Total current liabilities	<u>6,830</u>	<u>8,080</u>	<u>8,068</u>
Long-term debt	3,752	2,445	2,439
Deferred income taxes - net	107	109	104
Other liabilities	5,238	5,778	5,935
Total liabilities	<u>15,927</u>	<u>16,412</u>	<u>16,546</u>
Minority interests in subsidiary companies	738	754	780
SHAREHOLDERS' EQUITY			
Common shares, without par value - Authorized shares: unlimited; Issued and outstanding shares: 4,339,368,770 as of June 30, 2006, 4,339,337,625 as of March 31, 2006 and 4,339,162,932 as of December 31, 2005	33,932	33,935	33,932
Additional paid-in capital	3,326	3,295	3,281
Accumulated deficit	(35,326)	(35,692)	(35,525)
Accumulated other comprehensive loss	(771)	(863)	(902)
Total shareholders' equity	<u>1,161</u>	<u>675</u>	<u>786</u>
Total liabilities and shareholders' equity	<u>\$ 17,826</u>	<u>\$ 17,841</u>	<u>\$ 18,112</u>

Please refer to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 including the Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended			Six months ended	
	June 30, 2006	March 31, 2006	June 30, 2005	June 30, 2006	June 30, 2005
			As restated		As restated
Cash flows from (used in) operating activities					
Net earnings (loss)	\$ 366	\$ (167)	\$ (33)	\$ 199	\$ (137)
Adjustments to reconcile net earnings (loss) to net cash from (used in) operating activities from continuing operations, net of effects from acquisitions and divestitures of businesses:					
Amortization and depreciation	76	60	79	136	160
Non-cash portion of shareholder litigation settlement recovery	(510)	19	-	(491)	-
Non-cash portion of special charges and related asset write downs	-	-	2	-	2
Non-cash portion of in-process research and development expense	16	-	-	16	-
Equity in net (earnings) loss of associated companies	3	2	(1)	5	(2)
Stock option compensation	28	25	18	53	36
Deferred income taxes	38	16	4	54	12
Cumulative effect of accounting change	-	(9)	-	(9)	-
Net (earnings) loss from discontinued operations	-	-	1	-	(1)
Other liabilities	86	73	102	159	181
(Gain) loss on sale or write down of investments, businesses and assets	8	(34)	(10)	(26)	17
Other - net	183	103	30	286	(77)
Change in operating assets and liabilities	(402)	(262)	(82)	(664)	(344)
Net cash from (used in) operating activities of continuing operations	(108)	(174)	110	(282)	(153)
Cash flows from (used in) investing activities					
Expenditures for plant and equipment	(78)	(99)	(70)	(177)	(124)
Proceeds on disposals of plant and equipment	2	87	10	89	10
Restricted cash and cash equivalents	(570)	3	8	(567)	9
Acquisitions of investments and businesses - net of cash acquired	(4)	(121)	(446)	(125)	(448)
Proceeds on sale of investments and businesses	81	30	84	111	167
Net cash from (used in) investing activities of continuing operations	(569)	(100)	(414)	(669)	(386)
Cash flows from (used in) financing activities					
Dividends paid by subsidiaries to minority interests	(13)	(18)	(10)	(31)	(24)
Increase in notes payable	23	4	18	27	38
Decrease in notes payable	(9)	(3)	(20)	(12)	(46)
Borrowings in loan payable	-	1,300	-	1,300	-
Repayments of long-term debt	(150)	(1,275)	-	(1,425)	-
Decrease in capital leases payable	(4)	(5)	(4)	(9)	(5)
Issuance of common shares	-	1	1	1	1
Net cash from (used in) financing activities of continuing operations	(153)	4	(15)	(149)	(36)
Effect of foreign exchange rate changes on cash and cash equivalents	39	14	(50)	53	(85)
Net cash from (used in) continuing operations	(791)	(256)	(369)	(1,047)	(660)
Net cash from (used in) operating activities of discontinued operations	-	-	(2)	-	34
Net increase (decrease) in cash and cash equivalents	(791)	(256)	(371)	(1,047)	(626)
Cash and cash equivalents at beginning of period	2,695	2,951	3,430	2,951	3,685
Cash and cash equivalents at end of period	\$ 1,904	\$ 2,695	\$ 3,059	\$ 1,904	\$ 3,059

Please refer to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 including the Notes to the Unaudited Condensed Consolidated Financial Statements.

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			Six months ended	
	June 30, 2006	March 31, 2006	June 30, 2005	June 30, 2006	June 30, 2005
			As restated		As restated
Revenues					
Mobility and Converged Core Networks	\$ 1,591	\$ 1,426	\$ 1,484	\$ 3,017	\$ 2,970
Enterprise Solutions and Packet Networks	1,068	871	1,074	1,939	1,952
Total reportable segments	<u>2,659</u>	<u>2,297</u>	<u>2,558</u>	<u>4,956</u>	<u>4,922</u>
Other	85	85	61	170	86
Total revenues	<u>\$ 2,744</u>	<u>\$ 2,382</u>	<u>\$ 2,619</u>	<u>\$ 5,126</u>	<u>\$ 5,008</u>

Geographic revenues

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

	Three months ended			Six months ended	
	June 30, 2006	March 31, 2006	June 30, 2005	June 30, 2006	June 30, 2005
			As restated		As restated
Revenues					
United States	\$ 1,114	\$ 1,132	\$ 1,371	\$ 2,246	\$ 2,590
EMEA ^(a)	894	631	666	1,525	1,339
Canada	139	159	168	298	280
Asia	449	301	284	750	548
CALA ^(b)	148	159	130	307	251
Total revenues	<u>\$ 2,744</u>	<u>\$ 2,382</u>	<u>\$ 2,619</u>	<u>\$ 5,126</u>	<u>\$ 5,008</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			Six months ended	
	June 30, 2006	March 31, 2006	June 30, 2005	June 30, 2006	June 30, 2005
			As restated		As restated
Revenues					
Mobility and Converged Core Networks					
CDMA solutions	\$ 588	\$ 514	\$ 620	\$ 1,102	\$ 1,154
GSM and UMTS solutions	723	633	565	1,356	1,278
Circuit and packet voice solutions	280	279	299	559	538
	<u>1,591</u>	<u>1,426</u>	<u>1,484</u>	<u>3,017</u>	<u>2,970</u>
Enterprise Solutions and Packet Networks					
Circuit and packet voice solutions	361	339	459	700	781
Optical networking solutions	326	250	304	576	541
Data networking and security solutions ^(a)	381	282	311	663	630
	<u>1,068</u>	<u>871</u>	<u>1,074</u>	<u>1,939</u>	<u>1,952</u>
Other	85	85	61	170	86
Total revenues	<u>\$ 2,744</u>	<u>\$ 2,382</u>	<u>\$ 2,619</u>	<u>\$ 5,126</u>	<u>\$ 5,008</u>

(a) Includes \$186, \$194 and \$171 of revenue from our enterprise customers for the three months ended June 30, 2006 and 2005 and March 31, 2006, respectively, and \$357 and \$395 for the first half of 2006 and 2005, respectively.

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