



> Q2 2007 Financial Results Conference Call

August 2, 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 effects 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.

Cash flow from operations, excluding the \$585 million outflow related to the litigation settlement, is a non-GAAP measure. Nortel's management believes that this supplemental information is meaningful, given the impact on cash flow from operations of the global class action litigation settlement, by providing greater transparency to investors with respect to Nortel's performance and by facilitating comparisons to Nortel's historical performance. 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.

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 Q2 / 1H Highlights and Comments

2 Q2 / 1H 2007 Financials

3 Outlook

4 Plans / Priorities / Strategy

5 Q&A

Q2 / YTD 2007 Financial Highlights

US\$M



	Q2'07	YoY △	Q2'07 YTD	YoY △
Revenue	\$2.6B	(8%)	\$5.0B	(2%)
- UMTS Adjusted	\$2.6B	(1%)	\$5.0B	5%
Gross Margin	41.1%	264 bps	40.7%	216 bps
Operating Margin*	1.3%	291 bps	0.5%	448 bps
Cash Flow from (used in) Ops	(\$120M)	(\$12M)	(\$681M)	(\$399M)
- Excl Shareholder Settlement*	(\$120M)	(\$12M)	(\$96M)	\$186M

- Timing of revenue recognition impacts Q2
 - On track towards full year revenue guidance
- Gross margin in Q2'07 highest in 8 quarters
- Operating margin YoY improvement trend continues (4th consecutive quarter)
 - Full Year Guidance at around 5% operating margin
- Q2 Operating cash flow impacted by higher working capital
 - Improved by \$186M year to date adjusting for the shareholder litigation payment*
 - On track for significant total year improvement in working capital

Orders

US\$M



	Q2'07	YoY △	YTD Q2'07	YoY △
Total Orders	\$2,683	(4%)	\$5,269	(4%)
- UMTS Adjusted*	\$2,683	2%	\$5,269	3%

- > Book to Bill 1.05
 - 3rd consecutive quarter with book to bill above 1
- > Backlog increased to \$5.4B – up \$0.1B sequentially
- > Deferred Revenues \$3.4B - Flat sequentially
 - Previously anticipated decline did not materialize in Q2'07
 - Balance should decline by approximately 10% by year end

* Second quarter of 2006 included orders of ~\$184 million that related to the UMTS Access business that was sold on December 31, 2006.

Q2 / 1H 2007 Highlights and Comments



- > Q2'07 Revenue down, but full year on track
- > Gross Margin Improvement Trend
- > Strong Enterprise growth (4th quarter in a row)
- > Timing of contract completion and deferred revenues impacted MEN reported trends
 - Masks strong trends in Carrier Ethernet and Optical
- > Backlog “Strength”
- > Good CDMA outlook for the full year
- > Strong customer momentum and wins

Q2 / 1H 2007 Highlights and Comments

- > **Enhancing quality and effectiveness of R&D spend. Resonates with customers**
 - Doubling R&D investment in new business segments (e.g. UC, WiMAX, Applications, LTE)
 - Significant increase in R&D spend in core segments, offsets in legacy products
- > **Strong Progress on Accounting Front**
 - SAP phase 1 implementation Q2'07 (for accounting)
 - Accounting / Control Deficiencies Trend

	<u>Y/E 2005</u>	<u>Y/E 2006</u>	<u>Q2 2007</u>
# of Deficiencies	5,600	627	43

- > **Business Transformation on Track**
 - Progress in productivity, material cost reduction, pricing, quality, Enterprise go to market
 - Work to do on G&A (progress, but not as fast as anticipated)
- > **Strong Progress / Closure on Regulatory / Litigation**
 - OSC Settlement, progress with SEC
 - Litigation settled (cash in escrow, stock issuance commencing in 2007)

Agenda



1 Q2 / 1H Highlights and Comments

2 Q2 / 1H 2007 Financials

3 Outlook

4 Plans / Priorities / Strategy

5 Q&A



Carrier Networks (CN) Revenue

US\$M

	Q2'07	YoY △	YTD Q2'07	YoY △
Carrier Networks	1,058	(16%)	2,067	(11%)
CDMA	494	(0%)	1,062	14%
GSM/UMTS	402	(28%)	673	(32%)
Circuit and Packet Voice	162	(22%)	332	(18%)
Carrier Networks - UMTS Adjusted*	1,058	(5%)	2,067	(1%)

- > CDMA: Some delivery delays in quarter. Expect 2nd half growth year over year
- > GSM/UMTS: Declines due to UMTS Access divestiture partially offset by increases in GSM due to contract completion in EMEA and CALA
- > Circuit, Packet Voice and Applications: TDM Voice declines outpace VoIP increases and deferred revenue recognized in Q2'06 not repeated. Expect 2nd half revenues to be at /above prior year results
- > WiMAX / LTE / UMB: Promising discussions with customers

* Q2 and Q2 YTD of 2006 included revenues of ~\$148 and \$250 million that related to the UMTS Access business that was sold on December 31, 2006. See chart titled "Non-GAAP Measures"



Enterprise Networks (EN) Revenue

US\$M

	Q2'07	YoY △	YTD Q2'07	YoY △
Enterprise Networks	590	23%	1,187	27%
Circuit Packet Voice Solutions	393	17%	768	16%
Data Networking & Security Solutions	197	39%	419	55%

- > 4th consecutive quarter of strong YoY growth - Positive Q2'07 impact by timing of contract completion
- > Circuit and Packet Voice: Volume increases in IP products, BCM and applications / Particular strong growth in EMEA and CALA
- > Data Networking and Security: Strongest increase in N.A. and EMEA – positive impact by recognition of previously deferred revenues
- > Good Momentum with customers / partners



Global Services (GS) Revenue

US\$M

	Q2'07	YoY △	YTD Q2'07	YoY △
Global Services	494	(9%)	942	(10%)
Global Services - UMTS Adjusted*	494	(3%)	942	(1%)

- > Q2'07 Revenue decrease primarily in Network Implementation Services due to UMTS Access divestiture and lower GSM related services
- > Network Managed Services up 19%, primarily in N.A. and Asia
- > Book to Bill above 1 for 3rd consecutive quarter

* Q2 and Q2 YTD of 2006 included revenues of ~\$36 and \$99 million that related to the UMTS Access business that was sold on December 31, 2006. See chart titled "Non-GAAP Measures"



Metro Ethernet Networks (MEN) Revenue

US\$M

	Q2'07	YoY △	YTD Q2'07	YoY △
Metro Ethernet Networks	363	(16%)	736	1%
Optical Networking	270	(3%)	533	9%
Data Networking and Security	93	(40%)	203	(14%)

- > MEN revenue decrease in Q2'07 due to timing of significant contract completions (primarily in Data Networking and Security in Q2 and Q3 2006)
- > Optical Networking – Strong growth in N.A. and CALA particularly in Metro DWDM (strongest quarterly performance to date) offset due to recognition of deferred revenues in 2006 not repeated
- > Strong momentum in Carrier Ethernet with new PBT and Metro Ethernet Manager wins



Geographic Revenue

US\$M

	Q2'07	YoY Δ	YTD Q2'07	YoY Δ	YTD Δ UMTS Adj*
North America	1,349	4%	2,738	6%	6%
EMEA	678	(24%)	1,256	(17%)	7%
Asia	336	(26%)	718	(6%)	(6%)
CALA	199	35%	333	8%	8%
Total	2,562	(8%)	5,045	(2%)	5%
Total - UMTS Adjusted*	2,562	(1%)	5,045	5%	

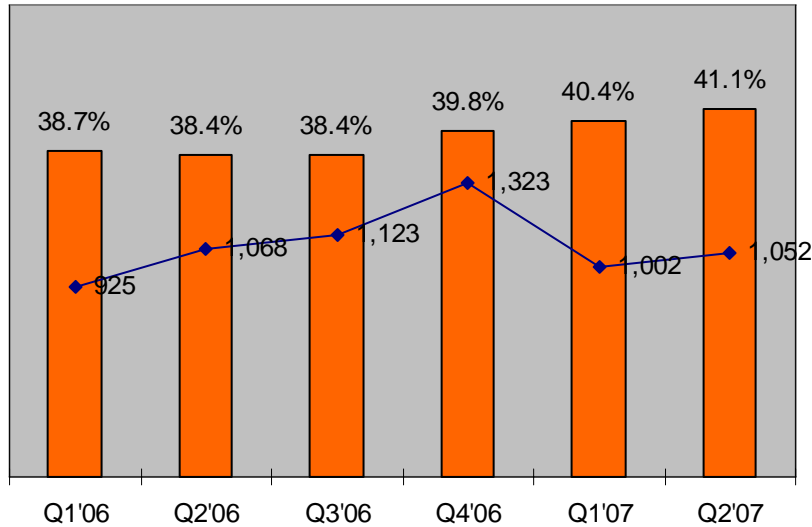
- > Growth in N. America driven by growth in Enterprise, Optical and Global Services
- > EMEA negatively impacted by the divestiture of UMTS Access
 - Q2 increased 7% YTD excluding UMTS divestiture impact* (\$184M in Q2'07 / \$350M YTD)
- > Asia decline due to recognition of previously deferred revenues in GSM and Optical in Q2'06, not repeated in 2007
- > Growth in CALA driven by Optical and GSM

*Note: UMTS Access revenues were \$184M in Q2'06 and \$350M year to date Q2'06. See chart titled "Non-GAAP Measures"



Gross Margin

US\$M

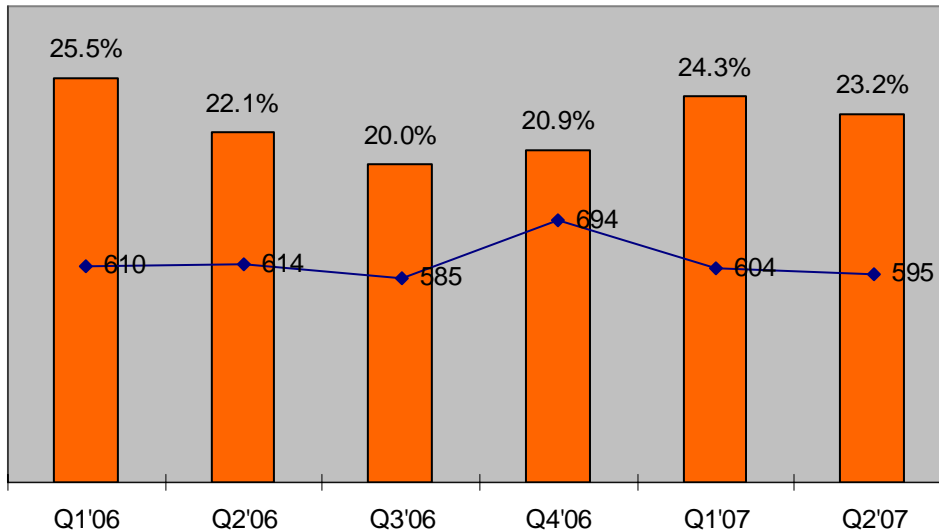


	Q2'07	Q2'06	Δ
GM - \$	1,052	1,068	(16)
- % Rev	41.1%	38.4%	264 bps

- > Improved Sequential and YoY GM% - highest in eight quarters
- > Benefiting from productivity improvements and improved mix
- > Expect continued gross margin expansion in 2nd half 2007

SG&A

US\$M



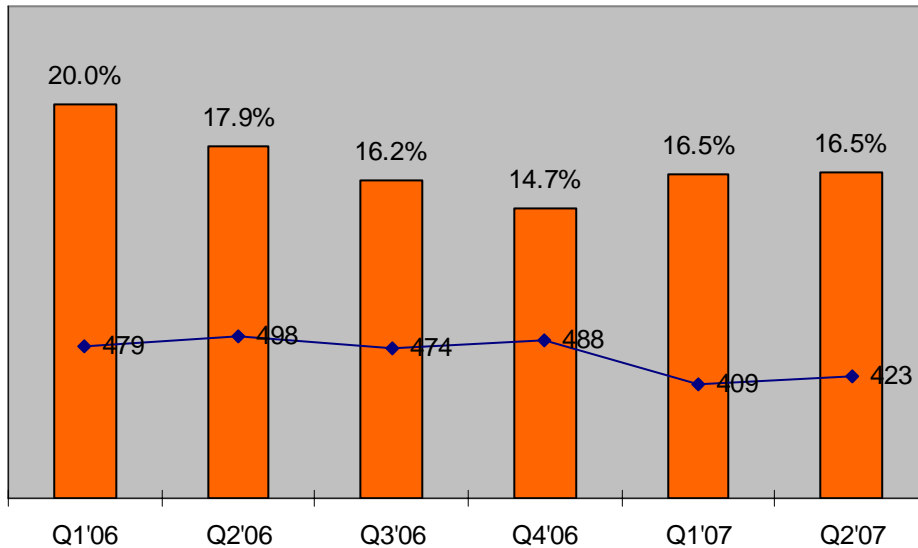
	Q2'07	Q2'06	Δ
SG&A	595	614	19
%Rev	23.2%	22.1%	-114 bps

- > Cost savings as a result of UMTS Access divestiture
- > Lower spending related to internal control remediation and finance transformation related costs
- > Partially offset by foreign exchange and increased enterprise sales personnel and variable compensation



R&D

US\$M



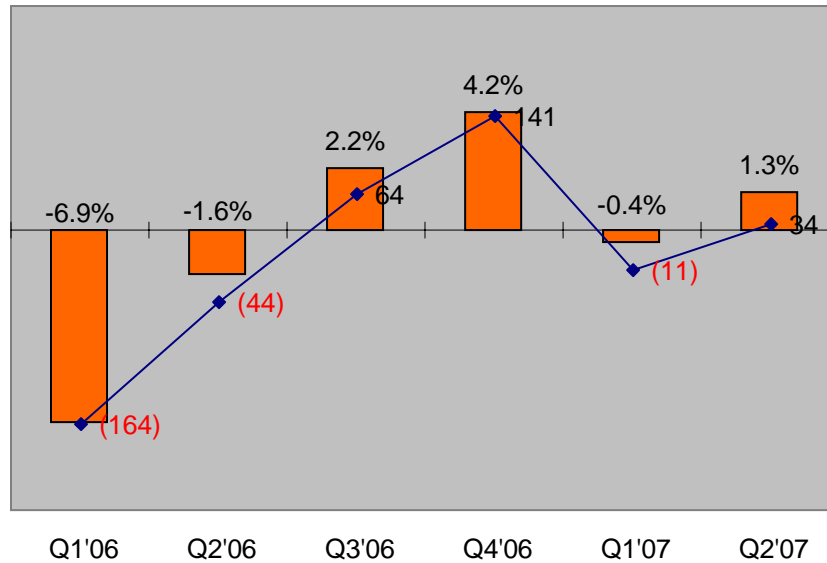
	Q2'07	Q2'06	△
R&D - \$	423	498	75
%Rev	16.5%	17.9%	138 bps

- > Costs savings as a result of the UMTS Access divestiture (\$62M)
- > Reduced employee related spending
- > Partially offset by foreign exchange
- > Driving towards 15% total year R&D to sales percentage



Operating Margin

US\$M



	Q2'07	Q2'06	Δ
OM - \$	34	(44)	78
% Rev	1.3%	(1.6%)	291 bps

- > Impact of improved gross margins – up over 260 basis points
- > Improved opex spending by \$94M or 20 basis points



Other Items

(US\$M)

	Q2'07	Q2'06	△
Other (Income) / Expense	(122)	(64)	91%
Interest Expense	98	77	27%
Minority Interest	11	(4)	(375%)

- Other Income increased primarily due to strong currency gains (Cdn\$ up ~ 9% versus US\$) and increases in interest and dividend income
- Interest Expense increase due to the higher debt levels and borrowing costs
- Increased Minority Interest expense related to LG-JV and NETAS



Significant Impact Items

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

	Q2'07	IMPACT PER DILUTED SHARE
Restructuring Charges	(36)	(\$0.07)
SEC Accrual	(35)	(\$0.07)
Gain on Sale	10	\$0.02
F/X Transactional Gain	69	\$0.14

Cash Flow

US\$M



	Q2'07	Q2'06	YTD Q2'07
Net Cash - Beginning of Period	4,555	2,695	3,492
From (used in) operating activities	(120)	(108)	(681)
Investing Activities	23	(569)	523
Financing Activities	(21)	(153)	1,097
F/X Effect	36	39	42
Change in Cash	(82)	(791)	981
Net Cash - End of Period	4,473	1,904	4,473

- Operating Cash Flow – outflow of \$120M primarily due to unfavourable movements in inventory and account payables
 - Increased outflow of \$12M over Q2'06
 - Strong efforts / commitment to drive strong working capital improvements for the total year, above the improvement in Q4'06

Operating Metrics

US\$M



	Q2'07	Q1'07	Q2'06
DSO (Days)	84	86	91
NID (Days)	29	27	34
DPO (Days)	58	62	54
Deferred Revenue	\$3.4B	\$3.4B	\$3.4B
Book to Bill	1.05	1.04	1.01
Order Backlog	\$5.4B	\$5.3B	\$5.7B

Agenda



1 Q2 / 1H Highlights and Comments

2 Q2 / 1H 2007 Financials

3 Outlook

4 Plans / Priorities / Strategy

5 Q&A

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 were approximately \$660 million). We continue to expect full year 2007 gross margin to be in the low 40's, as a percentage of revenues, and we now expect operating margin to be around 5 percent, of revenues.

Q3 2007

- > For the third quarter of 2007, we expect revenues to be down in the mid single digits compared to the year ago quarter (note that third quarter 2006 UMTS Access revenues associated with the assets sold were approximately \$156 million). We expect third quarter 2007 gross margin to be around 40, as a percentage of revenue, and operating expenses (SG&A and R&D) to be down slightly, compared to the year ago quarter.

*See chart titled "Non-GAAP Measures"

Agenda



1 Q2 / 1H Highlights and Comments

2 Q2 / 1H 2007 Financials

3 Outlook

4 Plans / Priorities / Strategy

5 Q&A



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

Q2 Update : Business Transformation Progress

BT TEAMS

Direct Materials (Supply Chain)

Service & Operations

Revenue Stimulation & Pricing

R&D

G&A/Financial

2008 TARGET

\$425M +

\$250M+

\$200M+

\$225M+

\$400M+

\$1,500M+

SAVINGS DRIVERS

- Flextronics Agreement Amended
 - Wave 1&2 contracts / Wave 3 started
 - DTV launched
-

- Mexico operational, Turkey open
 - Partner & Maintenance Services
 - Other cost reduction initiatives
-

- Go to Market
 - Global Pricing underway
-

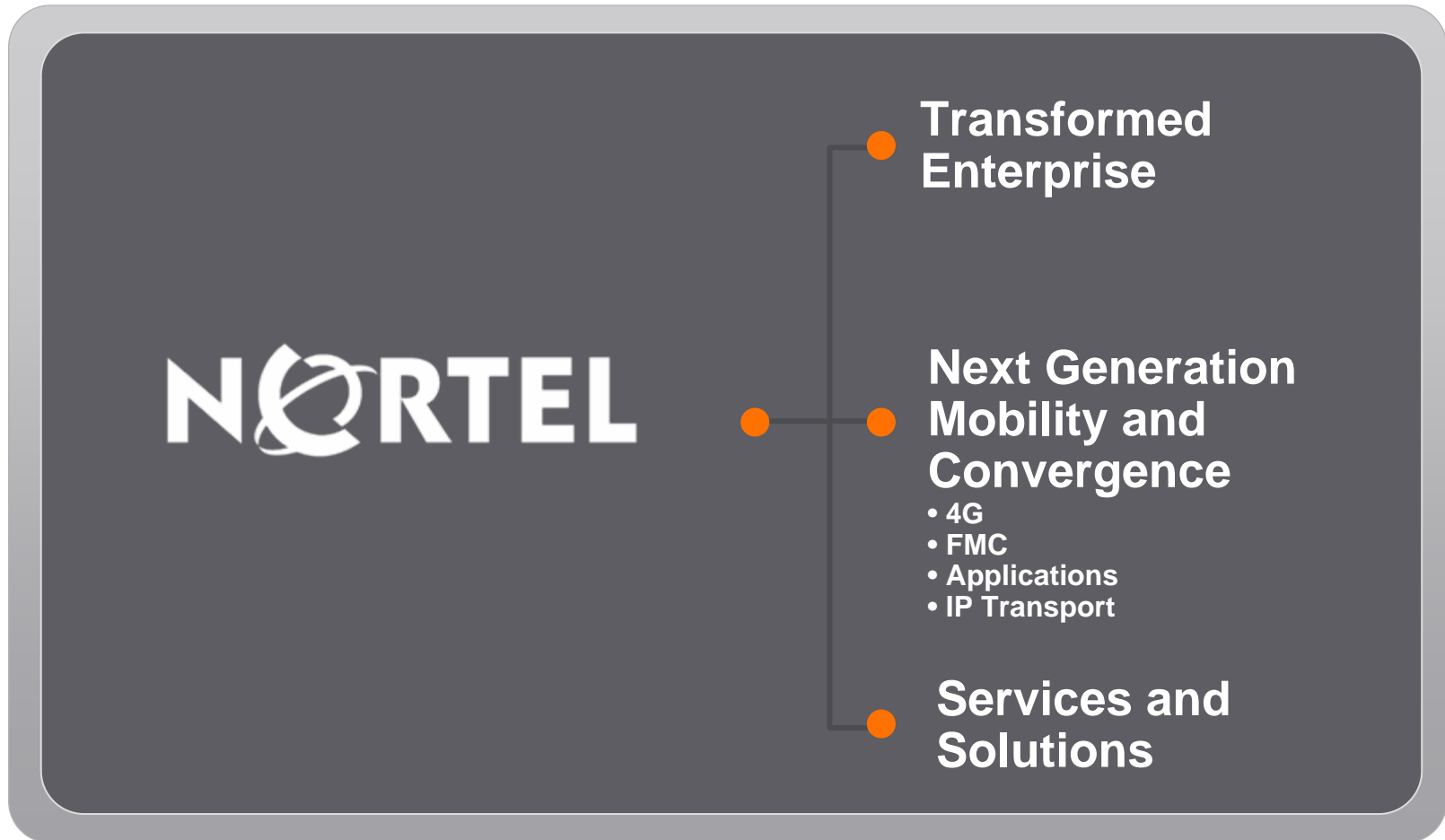
- Clean Sheet phase 1&2 done / 3 started
 - USDRP
 - Low Cost Centres
-

- Pension
- Spans & Layers
- Shared Services
- SAP System
- Finance Transform
- Benchmarking

Delivered \$270M+ total savings YTD 2007

Investing for Growth

Mapping Our Strengths to High-Growth Segments





Summary

- > Year to date on plan
- > Strong Enterprise momentum / Good CDMA outlook for full year
- > Customer Momentum
- > Backlog / Deferred Revenue “Strength”
- > Gross margin improvement trend and enhanced R&D spending effectiveness
- > Strong Progress on Regulatory and Accounting Fronts
- > Committed to delivering profitability model
- > Focus on growth opportunities and leveraging technology leadership

Strengthening Company throughout 2007

Agenda



1 Q2 / 1H Highlights and Comments

2 Q2 / 1H 2007 Financials

3 Outlook

4 Plans / Priorities / Strategy

5 Q&A



> Q&A