

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, 2007	March 31, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenues:					
Products	\$ 2,246	\$ 2,169	\$ 2,459	\$ 4,415	\$ 4,547
Services	316	314	321	630	623
	<u>2,562</u>	<u>2,483</u>	<u>2,780</u>	<u>5,045</u>	<u>5,170</u>
Cost of revenues					
Products	1,337	1,303	1,535	2,640	2,831
Services	173	178	177	351	346
	<u>1,510</u>	<u>1,481</u>	<u>1,712</u>	<u>2,991</u>	<u>3,177</u>
Gross profit	1,052	1,002	1,068	2,054	1,993
Selling, general and administrative expense	595	604	614	1,199	1,224
Research and development expense	423	409	498	832	977
Operating Margin ^(a)	<u>34</u>	<u>(11)</u>	<u>(44)</u>	<u>23</u>	<u>(208)</u>
Amortization of intangibles	13	12	6	25	11
In-process research and development expense	-	-	16	-	16
Special charges	36	80	49	116	54
Gain on sale of businesses and assets	(10)	(1)	12	(11)	(27)
Shareholder litigation settlement recovery	-	(54)	(510)	(54)	(491)
Regulatory investigation expense	35	-	-	35	-
Operating earnings (loss)	<u>(40)</u>	<u>(48)</u>	<u>383</u>	<u>(88)</u>	<u>229</u>
Other income - net	122	76	64	198	120
Interest expense					
Long-term debt	(91)	(85)	(58)	(176)	(103)
Other	(7)	(11)	(19)	(18)	(35)
Loss from operations before income taxes, minority interests and equity in net earnings (loss) of associated companies	<u>(16)</u>	<u>(68)</u>	<u>370</u>	<u>(84)</u>	<u>211</u>
Income tax expense	<u>(11)</u>	<u>(13)</u>	<u>(29)</u>	<u>(24)</u>	<u>(54)</u>
	<u>(27)</u>	<u>(81)</u>	<u>341</u>	<u>(108)</u>	<u>157</u>
Minority interests - net of tax	(11)	(22)	4	(33)	10
Equity in net earnings (loss) of associated companies - net of tax	1	-	(3)	1	(5)
Net loss before cumulative effect of accounting change	<u>(37)</u>	<u>(103)</u>	<u>342</u>	<u>(140)</u>	<u>162</u>
Cumulative effect of accounting change - net of tax	-	-	-	-	9
Net earnings (loss)	<u>\$ (37)</u>	<u>\$ (103)</u>	<u>\$ 342</u>	<u>\$ (140)</u>	<u>\$ 171</u>
Average shares outstanding (millions) - Basic ^(b)	497	442	434	470	434
Average shares outstanding (millions) - Diluted ^(b)	497	442	434	470	434
Basic and diluted earnings (loss) per common share	<u>\$ (0.07)</u>	<u>\$ (0.23)</u>	<u>\$ 0.79</u>	<u>\$ (0.30)</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.