

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

	Three months ended			Nine months ended	
	September 30,		September 30,	September 30,	September 30,
	2006	June 30, 2006	2005	2006	2005
	As restated			As restated	
Revenues:					
Products	\$ 2,640	\$ 2,421	\$ 2,193	\$ 7,141	\$ 6,684
Services	315	323	325	940	842
Total revenues	<u>2,955</u>	<u>2,744</u>	<u>2,518</u>	<u>8,081</u>	<u>7,526</u>
Cost of Revenues:					
Products	1,646	1,502	1,350	4,453	3,941
Services	184	176	190	529	461
Total cost of revenues	<u>1,830</u>	<u>1,678</u>	<u>1,540</u>	<u>4,982</u>	<u>4,402</u>
Gross profit	1,125	1,066	978	3,099	3,124
Selling, general and administrative expense	605	596	567	1,796	1,733
Research and development expense	480	489	443	1,447	1,405
Amortization of intangibles	8	6	7	19	11
In-process research and development expense	-	16	-	16	-
Special charges	25	45	39	75	145
(Gain) loss on sale of businesses and assets	(16)	10	3	(41)	36
Shareholder litigation settlement (recovery)	38	(510)	-	(453)	-
Operating earnings (loss)	<u>(15)</u>	<u>414</u>	<u>(81)</u>	<u>240</u>	<u>(206)</u>
Other income - net	51	51	53	171	181
Interest expense					
Long-term debt	(85)	(59)	(54)	(190)	(155)
Other	(20)	(11)	(3)	(55)	(7)
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies	(69)	395	(85)	166	(187)
Income tax expense	(9)	(27)	(39)	(59)	(46)
Minority interests - net of tax	(78)	368	(124)	107	(233)
Equity in net earnings (loss) of associated companies - net of tax	(19)	1	(15)	(9)	(46)
Net earnings (loss) from continuing operations	<u>(2)</u>	<u>(3)</u>	<u>1</u>	<u>(7)</u>	<u>3</u>
Net earnings (loss) from discontinued operations - net of tax	(99)	366	(138)	91	(276)
Net earnings (loss) from discontinued operations - net of tax	-	-	2	-	3
Net earnings (loss) before cumulative effect of accounting change	<u>(99)</u>	<u>366</u>	<u>(136)</u>	<u>91</u>	<u>(273)</u>
Cumulative effect of accounting change - net of tax	-	-	-	9	-
Net earnings (loss)	<u>\$ (99)</u>	<u>\$ 366</u>	<u>\$ (136)</u>	<u>\$ 100</u>	<u>\$ (273)</u>
Average shares outstanding (millions) - Basic	4,339	4,339	4,339	4,339	4,338
Average shares outstanding (millions) - Diluted	4,339	4,340	4,339	4,340	4,338
Basic and diluted earnings (loss) per common share					
- from continuing operations	\$ (0.02)	\$ 0.08	\$ (0.03)	\$ 0.02	\$ (0.06)
- from discontinued operations	0.00	0.00	0.00	0.00	0.00
Basic earnings (loss) per common share	<u>\$ (0.02)</u>	<u>\$ 0.08</u>	<u>\$ (0.03)</u>	<u>\$ 0.02</u>	<u>\$ (0.06)</u>

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

	<u>September 30, 2006</u>	<u>June 30, 2006</u>	<u>December 31, 2005</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,600	\$ 1,904	\$ 2,951
Restricted cash and cash equivalents	628	646	77
Accounts receivable - net	2,804	2,785	2,862
Inventories - net	1,834	2,035	1,804
Deferred income taxes - net	405	348	377
Other current assets	755	833	796
Total current assets	<u>9,026</u>	<u>8,551</u>	<u>8,867</u>
Investments	211	209	244
Plant and equipment - net	1,559	1,574	1,564
Goodwill	2,589	2,588	2,592
Intangible assets - net	184	205	172
Deferred income taxes - net	3,651	3,728	3,629
Other assets	979	971	1,044
Total assets	<u>\$ 18,199</u>	<u>\$ 17,826</u>	<u>\$ 18,112</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other accounts payable	\$ 949	\$ 1,065	\$ 1,180
Payroll and benefit-related liabilities	793	861	801
Contractual liabilities	233	258	346
Restructuring liabilities	93	111	95
Other accrued liabilities	4,356	4,517	4,200
Long-term debt due within one year	18	18	1,446
Total current liabilities	<u>6,442</u>	<u>6,830</u>	<u>8,068</u>
Long-term debt	4,446	3,752	2,439
Deferred income taxes - net	107	107	104
Other liabilities	5,147	5,238	5,935
Total liabilities	<u>16,142</u>	<u>15,927</u>	<u>16,546</u>
Minority interests in subsidiary companies	742	738	780
SHAREHOLDERS' EQUITY			
Common shares, without par value - Authorized shares: unlimited; Issued and outstanding shares: 4,339,356,226 as of September 30, 2006, 4,339,368,770 as of June 30, 2006 and 4,339,162,932 as of December 31, 2005	33,936	33,932	33,932
Additional paid-in capital	3,352	3,326	3,281
Accumulated deficit	(35,425)	(35,326)	(35,525)
Accumulated other comprehensive loss	(548)	(771)	(902)
Total shareholders' equity	<u>1,315</u>	<u>1,161</u>	<u>786</u>
Total liabilities and shareholders' equity	<u>\$ 18,199</u>	<u>\$ 17,826</u>	<u>\$ 18,112</u>

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

	Three months ended			Nine months Ended	
	September 30, 2006	June 30, 2006	September 30, 2005 As restated	September 30, 2006	September 30, 2005 As restated
Cash flows from (used in) operating activities					
Net earnings (loss)	\$ (99)	\$ 366	\$ (136)	\$ 100	\$ (273)
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	86	76	73	222	233
Non-cash portion of shareholder litigation settlement expense (recovery)	38	(510)	-	(453)	-
Non-cash portion of special charges and related asset write downs	12	-	1	12	3
Non-cash portion of in-process research and development expense	-	16	-	16	-
Equity in net (earnings) loss of associated companies	2	3	(1)	7	(3)
Stock option compensation	30	28	22	83	58
Deferred income taxes	20	38	44	74	56
Cumulative effect of accounting change	-	-	-	(9)	-
Net (earnings) loss from discontinued operations	-	-	(2)	-	(3)
Other liabilities	81	86	75	240	256
(Gain) loss on sale or write down of investments, businesses and assets	(9)	8	3	(35)	20
Other - net	40	183	70	326	(7)
Change in operating assets and liabilities	(247)	(402)	(293)	(911)	(637)
Net cash from (used in) operating activities of continuing operations	(46)	(108)	(144)	(328)	(297)
Cash flows from (used in) investing activities					
Expenditures for plant and equipment	(83)	(78)	(52)	(260)	(176)
Proceeds on disposals of plant and equipment	36	2	-	125	10
Restricted cash and cash equivalents - net	21	(570)	-	(546)	9
Acquisitions of investments and businesses - net of cash acquired	(9)	(4)	(1)	(134)	(449)
Proceeds on sale of investments and businesses	88	81	141	199	308
Net cash from (used in) investing activities of continuing operations	53	(569)	88	(616)	(298)
Cash flows from (used in) financing activities					
Dividends paid by subsidiaries to minority interests	(15)	(13)	(9)	(46)	(33)
Increase in notes payable	61	23	21	88	59
Decrease in notes payable	(18)	(9)	(18)	(30)	(64)
Proceeds from issuance of long-term debt	2,000	-	-	3,300	-
Repayment of long-term debt	(1,300)	(150)	-	(2,725)	-
Debt issuance cost	(42)	-	-	(42)	-
Decrease in capital leases payable	(3)	(4)	(3)	(12)	(8)
Issuance of common shares	-	-	3	1	4
Net cash from (used in) financing activities of continuing operations	683	(153)	(6)	534	(42)
Effect of foreign exchange rate changes on cash and cash equivalents	6	39	(1)	59	(86)
Net cash from (used in) continuing operations	696	(791)	(63)	(351)	(723)
Net cash from (used in) operating activities of discontinued operations	-	-	-	-	34
Net increase (decrease) in cash and cash equivalents	696	(791)	(63)	(351)	(689)
Cash and cash equivalents at beginning of period	1,904	2,695	3,059	2,951	3,685
Cash and cash equivalents at end of period	\$ 2,600	\$ 1,904	\$ 2,996	\$ 2,600	\$ 2,996

NORTEL NETWORKS CORPORATION
Consolidated Financial Information (unaudited)
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Segmented revenues

The following table summarizes our revenue by reportable segment for:

	Three months ended			Nine months ended	
	September 30, 2006	June 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	As restated			As restated	
Revenues					
Mobility and Converged Core Networks	\$ 1,540	\$ 1,433	\$ 1,251	\$ 4,255	\$ 3,953
Enterprise Solutions	609	475	534	1,523	1,608
Metro Ethernet Networks	430	465	363	1,201	998
Global Services	316	309	305	916	883
Total reportable segments	2,895	2,682	2,453	7,895	7,442
Other	60	62	65	186	84
Total revenues	\$ 2,955	\$ 2,744	\$ 2,518	\$ 8,081	\$ 7,526

Geographic revenues

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

	Three months ended			Nine months ended	
	September 30, 2006	June 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	As restated			As restated	
Revenues					
United States	\$ 1,311	\$ 1,114	\$ 1,254	\$ 3,557	\$ 3,846
EMEA ^(a)	809	894	618	2,334	1,956
Canada	224	139	160	522	438
Asia	474	449	312	1,224	861
CALA ^(b)	137	148	174	444	425
Total revenues	\$ 2,955	\$ 2,744	\$ 2,518	\$ 8,081	\$ 7,526

- (a) Europe, Middle East and Africa
(b) Caribbean and Latin America

Network Solutions revenues

The following table summarizes our revenues by category of network solutions for each of our reportable segments for:

	Three months ended			Nine months ended	
	September 30, 2006	June 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	As restated			As restated	
Revenues					
Mobility and Converged Core Networks					
CDMA solutions	\$ 704	\$ 542	\$ 514	\$ 1,722	\$ 1,606
GSM and UMTS solutions	563	664	522	1,796	1,704
Circuit and packet voice solutions	273	227	215	737	643
	1,540	1,433	1,251	4,255	3,953
Enterprise Solutions					
Circuit and packet voice solutions	430	321	357	1,054	1,122
Data networking and security solutions	179	154	177	469	486
	609	475	534	1,523	1,608
Metro Ethernet Networks					
Optical networking solutions	312	295	259	828	709
Data networking and security solutions	118	170	104	373	289
	430	465	363	1,201	998
Global Services	316	309	305	916	883
Other	60	62	65	186	84
Total revenues	\$ 2,955	\$ 2,744	\$ 2,518	\$ 8,081	\$ 7,526

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Segmented revenues

The following table summarizes our historical revenue reflecting the new reportable segments:

	Three months ended						
	2005				2006		
	March 31	June 30	September 30	December 31	March 31	June 30	September 30
	As restated	As restated	As restated				
Revenues							
Mobility and Converged Core Networks							
CDMA solutions	\$ 505	\$ 587	\$ 514	\$ 577	\$ 476	\$ 542	\$ 704
GSM and UMTS solutions	673	509	522	884	569	664	563
Circuit and packet voice solutions	191	237	215	255	237	227	273
	<u>1,369</u>	<u>1,333</u>	<u>1,251</u>	<u>1,716</u>	<u>1,282</u>	<u>1,433</u>	<u>1,540</u>
Enterprise Solutions							
Circuit and packet voice solutions	308	457	357	355	303	321	430
Data networking and security solutions	157	152	177	147	136	154	179
	<u>465</u>	<u>609</u>	<u>534</u>	<u>502</u>	<u>439</u>	<u>475</u>	<u>609</u>
Metro Ethernet Networks							
Optical networking solutions	198	252	259	309	221	295	312
Data networking and security solutions	91	94	104	120	85	170	118
	<u>289</u>	<u>346</u>	<u>363</u>	<u>429</u>	<u>306</u>	<u>465</u>	<u>430</u>
Global Services	265	313	305	287	291	309	316
Other	1	18	65	63	64	62	60
Total revenues	<u>\$ 2,389</u>	<u>\$ 2,619</u>	<u>\$ 2,518</u>	<u>\$ 2,997</u>	<u>\$ 2,382</u>	<u>\$ 2,744</u>	<u>\$ 2,955</u>

MCCN provides mobility networking solutions using (i) CDMA solutions, and GSM and UMTS solutions and (ii) carrier circuit and packet voice solutions. MEN combines our optical networking solutions and the carrier portion of our data networking solutions. ES provides (i) enterprise circuit and packet voice solutions, and (ii) data networking and security solutions, which supply data, voice and multimedia communications solutions to our enterprise customers and software solutions for multi-media messaging, conferencing and call centers. GS provides a broad range of services to address the requirements of our carrier and enterprise customers and is organized into four main service groups; (i) Network implementation services (Network integration, planning, installation, optimization and security services), (ii) Network Support Services (Technical support, hardware maintenance, equipment spares logistics and on-site engineers), (iii) Network managed services (Monitor and manage customer networks and provide a range of network managed service options) and (iv) Network Application Services (Applications development, integration and web services).

Revenue from networking services consisting of planning, engineering and installation are generally bundled with product sales and are not currently included in the revenues of GS.