

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, 2007 | June 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| Revenues: | | | | | |
| Products | \$ 2,378 | \$ 2,246 | \$ 2,595 | \$ 6,793 | \$ 7,142 |
| Services | 327 | 316 | 331 | 957 | 954 |
| | <u>2,705</u> | <u>2,562</u> | <u>2,926</u> | <u>7,750</u> | <u>8,096</u> |
| Cost of revenues | | | | | |
| Products | 1,384 | 1,337 | 1,614 | 4,024 | 4,445 |
| Services | 158 | 173 | 189 | 509 | 535 |
| | <u>1,542</u> | <u>1,510</u> | <u>1,803</u> | <u>4,533</u> | <u>4,980</u> |
| Gross profit | 1,163 | 1,052 | 1,123 | 3,217 | 3,116 |
| Selling, general and administrative expense | 613 | 595 | 585 | 1,812 | 1,809 |
| Research and development expense | 416 | 423 | 474 | 1,248 | 1,451 |
| Operating Margin ^(a) | 134 | 34 | 64 | 157 | (144) |
| Amortization of intangibles | 12 | 13 | 8 | 37 | 19 |
| In-process research and development expense | - | - | - | - | 16 |
| Special charges | 56 | 36 | 22 | 172 | 76 |
| Gain on sale of businesses and assets | 3 | (10) | (15) | (8) | (42) |
| Shareholder litigation settlement recovery | - | - | 38 | (54) | (453) |
| Regulatory investigation expense | - | 35 | - | 35 | - |
| Operating earnings (loss) | 63 | (40) | 11 | (25) | 240 |
| Other income - net | 163 | 122 | 58 | 361 | 178 |
| Interest expense | | | | | |
| Long-term debt | (102) | (91) | (85) | (278) | (188) |
| Other | (5) | (7) | (20) | (23) | (55) |
| Loss from operations before income taxes, minority interests and equity in net earnings (loss) of associated companies | 119 | (16) | (36) | 35 | 175 |
| Income tax expense | (50) | (11) | (15) | (74) | (69) |
| | 69 | (27) | (51) | (39) | 106 |
| Minority interests - net of tax | (43) | (11) | (11) | (76) | (1) |
| Equity in net earnings (loss) of associated companies - net of tax | 1 | 1 | (1) | 2 | (6) |
| Net loss before cumulative effect of accounting change | 27 | (37) | (63) | (113) | 99 |
| Cumulative effect of accounting change - net of tax | - | - | - | - | 9 |
| Net earnings (loss) | <u>\$ 27</u> | <u>\$ (37)</u> | <u>\$ (63)</u> | <u>\$ (113)</u> | <u>\$ 108</u> |
| Average shares outstanding (millions) - Basic ^(b) | 497 | 497 | 434 | 479 | 434 |
| Average shares outstanding (millions) - Diluted ^(b) | 500 | 497 | 434 | 479 | 435 |
| Basic and diluted earnings (loss) per common share | <u>\$ 0.05</u> | <u>\$ (0.07)</u> | <u>\$ (0.14)</u> | <u>\$ (0.24)</u> | <u>\$ 0.25</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.