

**NORTEL NETWORKS CORPORATION**  
**Consolidated Statements of Operations**  
**(Preliminary and Unaudited)**  
**(Millions of U.S. dollars, except per share amounts)**

|  | <b>Three months ended<br/>December 31,<br/>2005<sup>(a)</sup></b> | <b>Three months ended December 31,</b> |  |  |
|--|---|--|--|--|
|  |   | <b>2004</b>                            | <b>(Anticipated<br/>restatement<br/>adjustments)<sup>(a)</sup></b> | <b>2004<br/>(Preliminary<br/>anticipated<br/>restated)<sup>(a)</sup></b> |
| Revenues   | \$ 2,947  | \$ 2,615                               | \$ (30)  | \$ 2,585   |
| Cost of revenues   | 1,672   | 1,431                                  | (16)   | 1,415  |
| Gross profit   | 1,275   | 1,184                                  | (14)   | 1,170  |
| Selling, general and administrative expense  | 674   | 542                                    | (14)   | 528  |
| Research and development expense   | 450   | 494                                    | (3)  | 491  |
| Amortization of intangibles  | 6   | 3                                      | -  | 3  |
| Special charges  | 28  | 81                                     | (5)  | 76   |
| (Gain) loss on sale of businesses and assets   | 11  | 16                                     | (4)  | 12   |
| Shareholder litigation settlement expense  | 2,474   | -                                      | -  | -  |
| Operating earnings (loss)  | (2,368)   | 48                                     | 12   | 60   |
| Other income - net   | 112   | 119                                    | (38)   | 81   |
| Interest expense   |   |  |  |  |
| Long-term debt   | (48)  | (61)                                   | -  | (61)   |
| Other  | (4)   | 8                                      | -  | 8  |
| Earnings (loss) from continuing operations before income taxes,<br>minority interests and equity in<br>net earnings (loss) of associated companies | (2,308)   | 114                                    | (26)   | 88   |
| Income tax benefit (expense)   | 101   | (3)                                    | -  | (3)  |
| Minority interests - net of tax  | (2)   | (17)                                   | -  | (17)   |
| Equity in net earnings (loss) of associated companies - net of tax   | 1   | 2                                      | -  | 2  |
| Net earnings (loss) from continuing operations   | (2,208)   | 96                                     | (26)   | 70   |
| Net earnings from discontinued operations - net of tax   | 0.00  | 37                                     | 0.00   | 37   |
| Net earnings (loss)  | (2,208)   | 133                                    | (26)   | 107  |
| Basic earnings (loss) per common share   |   |  |  |  |
| - from continuing operations   | \$ (0.51)   | \$ 0.02                                | \$ (0.01)  | \$ 0.01  |
| - from discontinued operations   | 0.00  | 0.01                                   | 0.00   | 0.01   |
| Basic earnings (loss) per common share   | \$ (0.51)   | \$ 0.03                                | \$ (0.01)  | \$ 0.02  |
| Diluted earnings (loss) per common share   |   |  |  |  |
| - from continuing operations   | \$ (0.51)   | \$ 0.02                                | \$ (0.01)  | \$ 0.01  |
| - from discontinued operations   | 0.00  | 0.01                                   | 0.00   | 0.01   |
| Diluted earnings (loss) per common share   | \$ (0.51)   | \$ 0.03                                | \$ (0.01)  | \$ 0.02  |

(a) *These results are preliminary and unaudited and reflect known restatement adjustments. These results are subject to change as a result of any adjustments arising from the restatement process, subsequent events and the completion of the audit of the financial statements by Nortel's independent auditors.*

**NORTEL NETWORKS CORPORATION**  
**Consolidated Statements of Operations**  
**(Preliminary and Unaudited)**  
(Millions of U.S. dollars, except per share amounts)

|  | Twelve months<br>ended December 31, | Twelve months ended December 31, |  |   |
|--|-------------------------------------|----------------------------------|--|---|
|  | 2005 <sup>(a)</sup>                 | 2004                             | 2004   |   |
|  |                                     | (As<br>previously<br>reported)   | (Anticipated<br>restatement<br>adjustments) <sup>(a)</sup> | (Preliminary<br>anticipated<br>restated) <sup>(a)</sup> |
| Revenues   | \$ 10,829                           | \$ 9,828                         | \$ (77)  | \$ 9,751  |
| Cost of revenues   | 6,370                               | 5,750                            | (17)   | 5,733   |
| Gross profit   | 4,459                               | 4,078                            | (60)   | 4,018   |
| Selling, general and administrative expense  | 2,403                               | 2,138                            | (11)   | 2,127   |
| Research and development expense   | 1,852                               | 1,959                            | (2)  | 1,957   |
| Amortization of intangibles  | 16                                  | 10                               | -  | 10  |
| Special charges  | 173                                 | 180                              | (2)  | 178   |
| (Gain) loss on sale of businesses and assets   | 46                                  | (98)                             | (3)  | (101)   |
| Shareholder litigation settlement expense  | 2,474                               | -                                | -  | -   |
| Operating earnings (loss)  | (2,505)                             | (111)                            | (42)   | (153)   |
| Other income - net   | 298                                 | 231                              | (51)   | 180   |
| Interest expense   |                                     |                                  |  |   |
| Long-term debt   | (204)                               | (193)                            | -  | (193)   |
| Other  | (10)                                | (10)                             | -  | (10)  |
| Earnings (loss) from continuing operations before income taxes,<br>minority interests and equity in<br>net earnings (loss) of associated companies | (2,421)                             | (83)                             | (93)   | (176)   |
| Income tax benefit (expense)   | 52                                  | 29                               | -  | 29  |
|  | (2,369)                             | (54)                             | (93)   | (147)   |
| Minority interests - net of tax  | (48)                                | (46)                             | -  | (46)  |
| Equity in net earnings (loss) of associated companies - net of tax   | 4                                   | -                                | -  | -   |
| Net earnings (loss) from continuing operations   | (2,413)                             | (100)                            | (93)   | (193)   |
| Net earnings from discontinued operations - net of tax   | 1                                   | 49                               | -  | 49  |
| Net earnings (loss)  | (2,412)                             | (51)                             | (93)   | (144)   |
| Basic earnings (loss) per common share   |                                     |                                  |  |   |
| - from continuing operations   | \$ (0.56)                           | \$ (0.02)                        | \$ (0.02)  | \$ (0.04)   |
| - from discontinued operations   | 0.00                                | 0.01                             | 0.00   | 0.01  |
| Basic earnings (loss) per common share   | \$ (0.56)                           | \$ (0.01)                        | \$ (0.02)  | \$ (0.03)   |
| Diluted earnings (loss) per common share   |                                     |                                  |  |   |
| - from continuing operations   | \$ (0.56)                           | \$ (0.02)                        | \$ (0.02)  | \$ (0.04)   |
| - from discontinued operations   | 0.00                                | 0.01                             | 0.00   | 0.01  |
| Diluted earnings (loss) per common share   | \$ (0.56)                           | \$ (0.01)                        | \$ (0.02)  | \$ (0.03)   |

(a) *These results are preliminary and unaudited and reflect known restatement adjustments. These results are subject to change as a result of any adjustments arising from the restatement process, subsequent events and the completion of the audit of the financial statements by Nortel's independent auditors.*

## Segment revenues

The following table summarizes an estimated allocation of our revenues for the three months ended December 31, 2005 and 2004, by segment:

|                           | Three Months        |                | Three Months Ended December 31, |                          |
|---------------------------|---------------------|----------------|---------------------------------|--------------------------|
|                           | Ended December 31,  |                | 2004                            |                          |
|                           | 2005 <sup>(a)</sup> |                | (Anticipated                    | (Preliminary             |
|                           |                     | (As previously | restatement                     | anticipated              |
|                           |                     | reported)      | adjustments) <sup>(a)</sup>     | restated) <sup>(a)</sup> |
| <b>Revenues</b>           |                     |                |                                 |                          |
| Carrier Packet Networks   | \$ 802              | \$ 685         | \$ (2)                          | \$ 683                   |
| CDMA Networks             | 741                 | 616            | (15)                            | 601                      |
| GSM and UMTS Networks     | 755                 | 665            | 8                               | 673                      |
| Enterprise Networks       | 651                 | 651            | (21)                            | 630                      |
| Total reportable segments | 2,949               | 2,617          | (30)                            | 2,587                    |
| Other                     | (2)                 | (2)            | -                               | (2)                      |
| Total revenues            | \$ 2,947            | \$ 2,615       | \$ (30)                         | \$ 2,585                 |

(a) These results are based on estimated allocations of revenue and are preliminary and unaudited and reflect known restatement adjustments. These results are subject to change as a result of any adjustments arising from the restatement process, subsequent events and the completion of the audit of the financial statements by Nortel's independent auditors.

The following table summarizes an estimated allocation of our revenues for the twelve months ended December 31, 2005 and 2004, by segment:

|                           | Twelve Months       |                | Twelve Months Ended December 31, |                          |
|---------------------------|---------------------|----------------|----------------------------------|--------------------------|
|                           | Ended December 31,  |                | 2004                             |                          |
|                           | 2005 <sup>(a)</sup> |                | (Anticipated                     | (Preliminary             |
|                           |                     | (As previously | restatement                      | anticipated              |
|                           |                     | reported)      | adjustments) <sup>(a)</sup>      | restated) <sup>(a)</sup> |
| <b>Revenues</b>           |                     |                |                                  |                          |
| Carrier Packet Networks   | \$ 2,920            | \$ 2,625       | \$ (1)                           | \$ 2,624                 |
| CDMA Networks             | 2,418               | 2,263          | (2)                              | 2,261                    |
| GSM and UMTS Networks     | 2,888               | 2,575          | (19)                             | 2,556                    |
| Enterprise Networks       | 2,599               | 2,354          | (55)                             | 2,299                    |
| Total reportable segments | 10,825              | 9,817          | (77)                             | 9,740                    |
| Other                     | 4                   | 11             | -                                | 11                       |
| Total revenues            | \$ 10,829           | \$ 9,828       | \$ (77)                          | \$ 9,751                 |

(a) These results are based on estimated allocations of revenue and are preliminary and unaudited and reflect known restatement adjustments. These results are subject to change as a result of any adjustments arising from the restatement process, subsequent events and the completion of the audit of the financial statements by Nortel's independent auditors.

## Geographic revenues

The following table summarizes our geographic revenues for the three months ended December 31, 2005 and 2004, based on the location of the customer:

|                     | <b>Three Months</b>       | <b>Three Months Ended December 31,</b> |  |   |
|---------------------|---------------------------|--|--|---|
|                     | <b>Ended December 31,</b> | <b>2004</b>                            |  | <b>2004</b>   |
|                     | <b>2005<sup>(a)</sup></b> | <b>(As previously reported)</b>        | <b>(Anticipated restatement adjustments)<sup>(a)</sup></b> | <b>(Preliminary anticipated restated)<sup>(a)</sup></b> |
| <b>Revenues</b>     |                           |  |  |   |
| United States       | \$ 1,410                  | \$ 1,180                               | \$ (41)  | \$ 1,139  |
| EMEA <sup>(b)</sup> | 779                       | 760                                    | 27   | 787   |
| Canada              | 145                       | 155                                    | (9)  | 146   |
| Asia Pacific        | 368                       | 349                                    | 7  | 356   |
| CALA <sup>(c)</sup> | 245                       | 171                                    | (14)   | 157   |
| <b>Consolidated</b> | <b>\$ 2,947</b>           | <b>\$ 2,615</b>                        | <b>\$ (30)</b>   | <b>\$ 2,585</b>   |

(a) These results are preliminary and unaudited and reflect known restatement adjustments. These results are subject to change as a result of any adjustments arising from the restatement process, subsequent events and the completion of the audit of the financial statements by Nortel's independent auditors.

(b) The Europe, Middle East and Africa region, or EMEA.

(c) The Caribbean and Latin America region, or CALA.

The following table summarizes our geographic revenues for the twelve months ended December 31, 2005 and 2004, based on the location of the customer:

|                     | <b>Twelve Months</b>      | <b>Twelve Months Ended December 31,</b> |  |   |
|---------------------|---------------------------|---|--|---|
|                     | <b>Ended December 31,</b> | <b>2004</b>                             |  | <b>2004</b>   |
|                     | <b>2005<sup>(a)</sup></b> | <b>(As previously reported)</b>         | <b>(Anticipated restatement adjustments)<sup>(a)</sup></b> | <b>(Preliminary anticipated restated)<sup>(a)</sup></b> |
| <b>Revenues</b>     |                           |   |  |   |
| United States       | \$ 5,216                  | \$ 4,833                                | \$ (41)  | \$ 4,792  |
| EMEA                | 2,768                     | 2,580                                   | 9  | 2,589   |
| Canada              | 642                       | 568                                     | (39)   | 529   |
| Asia Pacific        | 1,505                     | 1,253                                   | 28   | 1,281   |
| CALA                | 698                       | 594                                     | (34)   | 560   |
| <b>Consolidated</b> | <b>\$ 10,829</b>          | <b>\$ 9,828</b>                         | <b>\$ (77)</b>   | <b>\$ 9,751</b>   |

(a) These results are preliminary and unaudited and reflect known restatement adjustments. These results are subject to change as a result of any adjustments arising from the restatement process, subsequent events and the completion of the audit of the financial statements by Nortel's independent auditors.