



> Q4 & Full Year 2006 Financial Results Conference Call

March 19, 2006



Welcome



- > Mike Zafirovski, President and CEO
- > Peter Currie, Executive Vice-President and CFO
- > 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 press release, 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 change in line with market conditions; 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.; anticipated growth in sales to enterprise customers; improvement in Nortel’s product costs due to favorable supplier pricing impacted by higher costs associated with initial customer deployments in emerging markets; cost reductions resulting from the completion of Nortel’s significant financial restatements and restructuring plans; increased employee costs relative to expected cost of living adjustments and employee bonuses offset by a significant reduction in executive recruitment and severance costs incurred in 2005; and the effective execution of Nortel’s strategy including our Business Transformation Initiatives. Nortel has also made certain macroeconomic and general industry assumptions in the preparation of its financial guidance including: a modest growth rate in the gross domestic product of global economies in the range of 3.9% which is higher than the growth rate in 2005; global service provider capital expenditures in 2006 reflecting mid to high single digit growth as compared to low double digit growth in 2005; a general increase in demand for broadband access, data traffic and wireless infrastructure and services in emerging markets with the rate of growth in developed markets beginning to slow; 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 press release, may prove to be inaccurate and consequently Nortel’s actual results could differ materially from its expectations set out in this press release.

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 affects 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 restatements and related matters including: 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.



Agenda

1 General Update

2 Q4 and Full Year 2006 Financials

3 Outlook

4 Plans / Priorities

5 Q&A

Q4 2006 General Update

- > **Sales (+10%) with growth across most Business Units**
 - Deferred Revenue down \$0.2B in Q4'06 sequentially and \$0.2B YTD
- > **Orders (+5%), 1.03 Book to Bill, Backlog up \$104M to \$5.2B QoQ**
- > **Gross Margin at 40%**
 - Highest gross margin in 6 quarters
- > **Operating Margin at 4.2% in Q4'06, Highest in 8 quarters**
 - FY 2006 operating margin was breakeven versus -0.2% in 2005
- > **Operating Cash Flow for Q4'06 was \$520M and \$237M for FY 2006**
 - Best Performance since 1998
- > **Material Weaknesses – Eliminated 4 out of 5**
- > **Key Customer Endorsement – Verizon (CDMA); Many Enterprise Wins**
- > **Key Technology/Innovation Endorsement – BT; PBT for 21CN**
- > **ICA Progress**
 - Dozens of customers; hundreds in pipeline
 - Three new solutions, eleven new implementation services
 - 20+ joint demonstration centers
- > **Securing of Business Transformation Initiatives to Achieve Target**

Customers Investing in the Future with Nortel

Selected Q4 Wins



> Enterprise

- New York Times Company
- Montreal Canadiens
- Louisiana Superdome
- Kerzner Int'l
- Intercontinental Jeddah Hotel
- Dubai Silicon Oasis

> Mobility

- Carlsbad, New Mexico
- Occoquan Wireless
- Ronco Communications
- American University Cairo

> Metro Ethernet

- MTC
- Iraq Telecomm & Post
- Sonofon
- Ntl Telewest

> Services

- Eastman Kodak Company
- Rolls Royce

> NGS

- US Nuclear Regulatory Agency
- US Navy Space and Naval Warfare Systems Center San Diego

Orders

US\$M



	Q4'06	Q4'05	△
North America	\$1,977	\$1,936	2%
EMEA	\$769	\$824	(7%)
Asia	\$499	\$414	21%
CALA	\$182	\$202	(10%)
Total	\$3,427	\$3,376	2%

- > Book to Bill 1.03 – Drivers:
 - Higher CDMA Rev A and LG Orders
 - Growth across most Business Units
- > Backlog up \$0.1B to \$5.2B sequentially
- > Deferred Revenues down \$0.2B to \$3.4B sequentially

Q4 2006 Financial Highlights

US\$M



	Q4'06	Q4'05	△
Revenue	\$3.3B	\$3.0B	10%
Gross Margin	39.8%	39.1%	70 bps
SG&A	20.9%	22.6%	170 bps
R&D	14.7%	15.1%	40 bps
Operating Expenses	\$1.2B	\$1.1B	(4%)
Operating Margin*	4.2%	1.4%	282 bps
Other**	\$175M	\$2,459M	\$2,284M
EBT***	(\$34M)	(\$2,416M)	\$2,382M
Net Earnings	(\$80M)	(\$2,286M)	\$2,206M
Cash Flow from (used in) Ops	\$520M	\$116M	\$404M
Period-End Stock Price****	\$26.73	\$30.60	(\$3.87)

*Operating Margin is a non-GAAP measure defined as Gross Margin less SG&A and R&D expenses divided by revenue

**Amortization of Intangibles, Shareholder Settlement expenses, Special Charges, Gain of Sale of Business, Other Income/Expense, Interest Expense, IPR&D

***Earnings from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies

****NYSE Price



Mobility and Converged Core Revenue

US\$M

	Q4'06	Q4'05	△
Mobility and Converged Core	1,672	1,757	(5%)
CDMA	788	575	37%
GSM/UMTS	636	935	(32%)
Circuit and Packet Voice	248	247	0%

- > CDMA: Growth driven primarily in N.A. by EV-DO Rev A and in Asia by LG CDMA
- > UMTS Access divested effective 12/31/06
- > GSM decreases in Asia and N. America driven by certain contracts in Q4'05 not repeated in Q4'06
- > Circuit and Packet Voice: Growth in Succession offset by decline in TDM



Enterprise Networks Revenue

US\$M

	Q4'06	Q4'05	△
Enterprise Networks	806	501	61%
Circuit Packet Voice Solutions	570	355	61%
Data Networking & Security Solutions	236	146	62%

- > Strong Q4 Performance (following strong Q3'06)
 - LG-JV revenues contributed 33 pts of growth driven in part by timing of revenue recognition
 - Robust 28% growth excluding impact of LG-JV
- > Circuit and Packet Voice: Highest revenue in over 12 quarters
 - Significant revenue contribution from LG-JV, N.America through IPT 123 & BCM
 - Momentum from sale effectiveness / Go to Market / Alliance
 - Shell & Kaiser Permanente AppManager, IRTC (India), Kentucky Dept of Ed with Nortel Application Switch and Firewall
- > Data Networking and Security:
 - Growth in Ethernet Switching & Mobility products
 - Revenues up across all regions



Metro Ethernet Networks Revenue

US\$M

	Q4'06	Q4'05	△
Metro Ethernet Networks	473	400	18%
Optical Networking	350	287	22%
Data Networking and Security	123	113	9%

> Optical Networking

- JUCG of Hong Kong – OME6500 / OM 5000, Telewest deploying OME6500 /CPL for triple play
- Comcast backbone and Optus contract completion, growth in Asia and CALA

> Data Networking and Security

- BT selects Nortel as vendor for 21CN, Easynet with MSS win, Sonofon wireless backhaul with MSS 7400/15000
- Declines in EMEA partially offset by growth in Asia and CALA



Global Services Revenue

US\$M

	Q4'06	Q4'05	△
Global Services	313	307	2%

- > Revenues growth across all three service groups (Maintenance, Operate and Advanced) and all regions except N. America
- > Focus on new business areas – managed services, optimization and interoperability
- > Microsoft-Nortel ICA - added 11 core integration services to help customers build, deploy and support joint unified communications solutions
- > Starting in Q1'07 Plan and Deploy revenues will be reported in Global Services



Geographic Revenue

US\$M

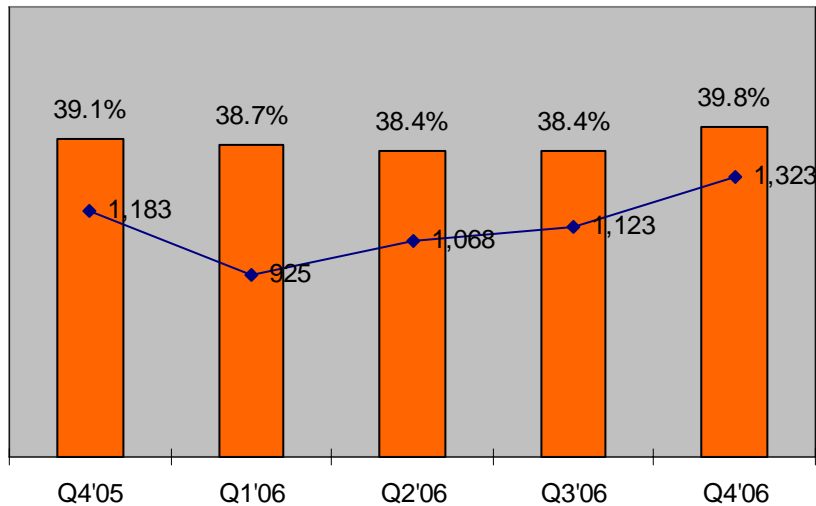
	Q4'06	Q4'05	△
North America	1,701	1,501	13%
EMEA	893	763	17%
Asia	545	580	(6%)
CALA	183	184	(1%)
Total	3,322	3,028	10%

- > Strong growth in N. America and EMEA driven by CDMA and LG-JV
- > LG-JV and NGS produced \$364M incremental revenues



Gross Margin

US\$M

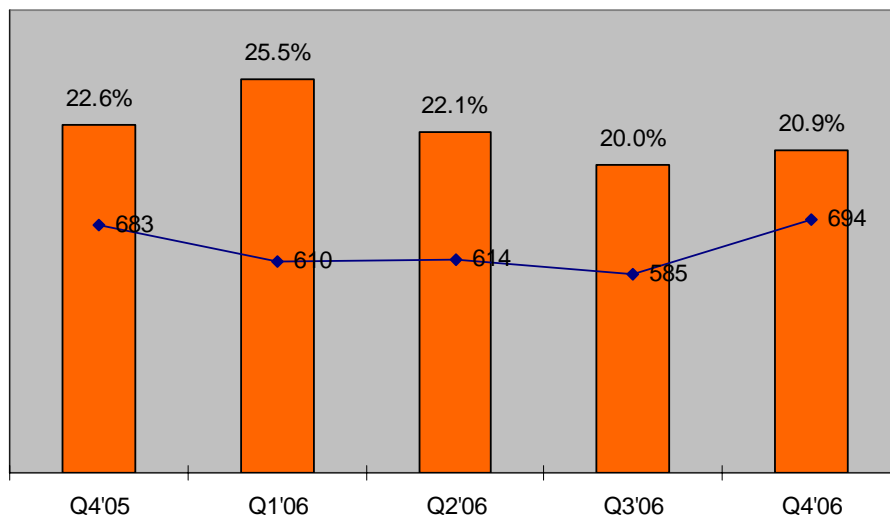


	Q4'06	Q4'05	Δ
\$	1,323	1,183	140
% Rev	39.8%	39.1%	70 bps

- > Improved Sequential and YoY GM% - highest in six quarters
- > Wireless margins increased due to favorable customer / product mix
- > Partially offset by unfavourable Optical product mix

SG&A

US\$M



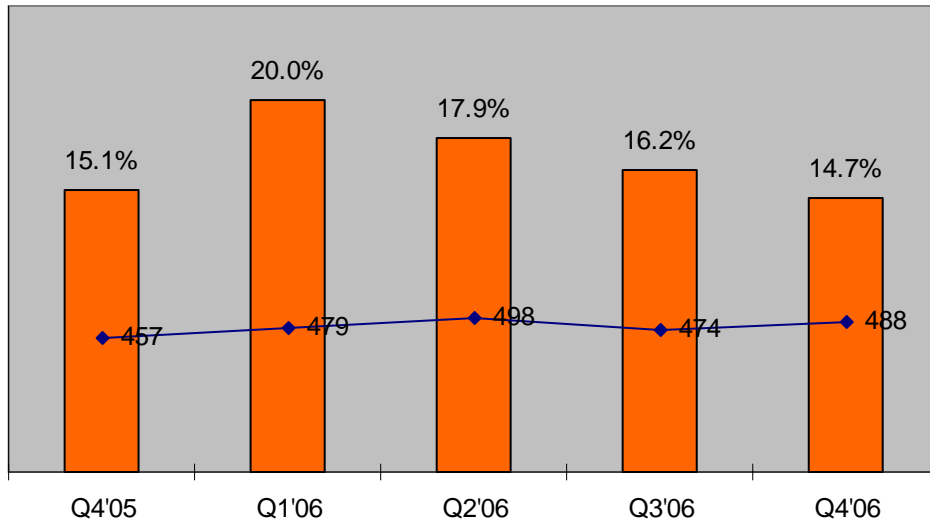
	Q4'06	Q4'05	Δ
\$	694	683	(11)
%Rev	20.9%	22.6%	170 bps

> Q4'06 included:

- Nortel-LG JV SG&A costs
- Higher costs associated with employee compensation (commissions / bonuses)
- Partially offset by savings related to lower finance costs

R&D

US\$M



	Q4'06	Q4'05	Δ
\$	488	457	(31)
%Rev	14.7%	15.1%	40 bps

> Q4'06 included

- Net costs savings due to re-alignment of investment to focused areas
- LG JV R&D costs
- Savings associated with 2006 Benefit Plan Restructuring



Other Items

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

	Q4'06	Q4'05	△
Other (Income) / Expense	(34)	(113)	(70%)
Interest Expense	97	57	70%
Minority Interest	58	2	NA

- Increased Minority Interest expense related to LG-JV
- Lower gains related to the sale of certain investments in Q4'05 not repeated in Q4'06
- F/X loss in 2006

Q4 2006 Highlights

US\$M



	Q4'06	Q4'05	△	2006	2005	△
Revenue	\$3.3B	\$3.0B	10%	\$11.4B	\$10.5B	9%
Gross Margin	39.8%	39.1%	70 bps	38.9%	40.7%	-180 bps
SG&A	20.9%	22.6%	170 bps	21.9%	23.1%	120 bps
R&D	14.7%	15.1%	40 bps	17.0%	17.8%	80 bps
Operating Expenses	\$1.2B	\$1.1B	(4%)	\$4.4B	\$4.3B	(3%)
Operating Margin*	4.2%	1.4%	282 bps	0.0%	-0.2%	21 bps
Other**	\$175M	\$2,459M	\$2,284M	(\$144M)	\$2,631M	\$2,775M
EBT***	(\$34M)	(\$2,416M)	\$2,382M	\$141M	(\$2,656M)	\$2,797M
Net Earnings	(\$80M)	(\$2,286M)	\$2,206M	\$28M	(\$2,610M)	\$2,638M
Cash Flow from (used in) Ops	\$520M	\$116M	\$404M	\$237M	(\$179M)	\$416M
Period-End Stock Price****	\$26.73	\$30.60	(\$3.87)	\$26.73	\$30.60	(\$3.87)

*Operating Margin is a non-GAAP measure defined as Gross Margin less SG&A and R&D expenses divided by revenues

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**** NYSE Price

UMTS Access Divestiture

US\$M



	Q1'06	Q2'06	Q3'06	Q4'06	2006
UMTS Access	157	187	150	124	618
Services	16	8	12	10	45
UMTS Disposition Total	173	195	161	134	663

- > UMTS Access divestiture completed December 31, 2006
 - Solutions and services contracts transferred
 - LG-JV contracts retained by Nortel
 - Book to Bill for UMTS Access approximately 1 for 2006



Significant Impact Items

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

	Q4'06	IMPACT PER DILUTED SHARE
Shareholder Settlement Expense Mark to Market Adjust	(234)	(\$0.54)
Restructuring Charges	(29)	(\$0.07)
Gain on Sale	164	\$0.38
Tax Recovery	15	\$0.03



Pension Update

US\$M

	Q4'06	Q4'05	△
Benefit Obligation	9,210	8,952	258
Value of Asset	7,139	6,456	683
Unfunded Status	2,071	2,496	(425)

- Adopted SFAS 158 (Full Unfunded status recorded on B/S) in Q4
 - Q4'06 Impact was \$142M charge to Shareholders' Equity
- Unfunded Status decreased to \$2.1B in Q4'06 from \$2.5B in 2005 due to:
 - Plan changes in U.S. and Canada
 - 2006 contributions
 - Improved return on assets

Cash Flow

US\$M

Net Cash - Beginning of Period
From (used in) operating activities
Investing Activities
Financing Activities
F/X Effect
Change in Cash
Net Cash - End of Period

<u>Q4'06</u>	<u>Q3'06</u>
2,600	1,904
520	(2)
343	53
(6)	638
35	6
892	696
3,492	2,600

Operating Metrics

US\$M



	Q4'06	Q3'06
DSO (Days)	75	86
NID (Days)	22	28
DPO (Days)	49	46
Deferred Revenue	\$3.4B	\$3.6B
Book to Bill	1.03	0.8
Order Backlog	\$5.2B	\$5.1B

Restatement Impact

US\$M



	2006 Q3 YTD	2005	2004	Prior Periods
Revenue	15	(14)	(38)	(28)
Gross Margin	17	(28)	(20)	(29)
Operating Margin	-	(62)	(45)	(14)
Net Earnings/(Loss)	8	(35)	(40)	(2)

- Key Corrections:
 - Pension Plan - 3rd Party Actuarial Errors
 - Revenue Recognition Timing
 - Tax Expense Adjustment
- Not Material to Any Period

Outlook



Full Year 2007

For the full year 2007, we 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 was approximately \$660 million). We expect full year 2007 gross margin to be in the low 40's, as a percentage of revenues, and operating margin (b) to be at 5 percent, or higher, of revenues.

Q1 2007

For the first quarter of 2007, we expect revenues to be approximately flat compared to the same period in 2006, reflecting a decrease in revenues as a result of the UMTS Access disposition (note that Q1 2006 UMTS Access revenues associated with the assets sold was approximately \$170 million). We expect first quarter of 2007 gross margin to be in the high 30's, as a percentage of revenues, and operating expenses to be down modestly compared to the first quarter of 2006.



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

Q4 Update :

Business Transformation Progress

BT TEAMS

Direct Materials (Supply Chain)
(J. Hackney/J. Townley)

Service & Operations
(D. Wendt/J. Hackney/S. Chilton)

Revenue Stimulation & Pricing
(D. Joannou/E. Schoch)

R&D
(Product presidents/H. Graham)

G&A/Organization
(D. Carey/B. Donovan)

Financial
(P. Currie/A Bifield)

2008 TARGET

\$425M +

\$250M+

\$200M+

\$225M+

\$200M+

\$200M+

\$1,500M+

SAVINGS DRIVERS

- Flextronics Agreement Amended
- Wave 1&2 contracts / **Wave 3 started**
- **Logistics costs being explored**
- **Progress in Turkey & Mexico**
- Partner & Maintenance Services
- **New Service Revenue**
- Go to Market
- VoIP initiative
- **Global Pricing (85% complete)**
- **Clean Sheet phase 1&2 done / 3 start**
- **USDRP** • E2E
- **Low Cost Centres**
- Pension • **G&A supply Initiatives**
- **Spans & Layers**
- **Shared Service**
- **SAP Implementation**
- Finance business and process transformation

Delivered \$100M total recurring savings in 2006

Financial Overview

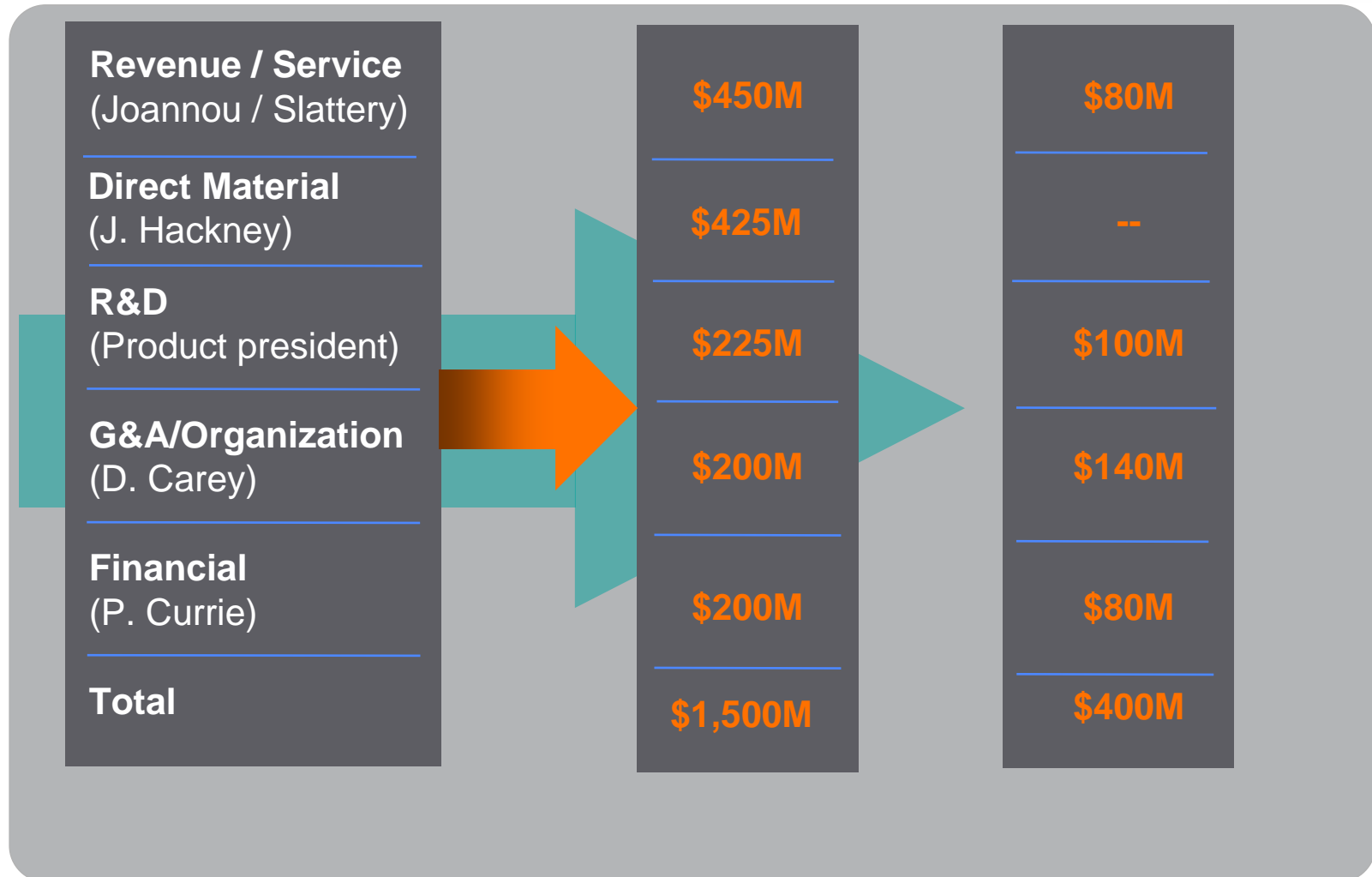
Savings Target



2007
RESTRUCTURING
PROGRAM

BT TEAMS

2008 TARGET





Summary

- > Solid 4th Quarter
- > Revenue Growth
- > Improved Operating Margin
- > Strong Cash Flow
- > Committed to delivering profitability model
- > Integrity—forthright and transparent

Passionate, Relentless Pursuit of Superior Results
and Doing the Right Thing



> Q&A