

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

	Three months ended			Twelve months ended	
	December 31, 2006	September 30, 2006 <i>As restated</i>	December 31, 2005 <i>As restated</i>	December 31, 2006	December 31, 2005 <i>As restated</i>
Revenues:					
Products	\$ 3,016	\$ 2,595	\$ 2,697	\$ 10,158	\$ 9,338
Services	306	331	331	1,260	1,171
Total revenues	<u>3,322</u>	<u>2,926</u>	<u>3,028</u>	<u>11,418</u>	<u>10,509</u>
Cost of revenues:					
Products	1,822	1,614	1,665	6,267	5,590
Services	177	189	180	712	641
Total cost of revenues	<u>1,999</u>	<u>1,803</u>	<u>1,845</u>	<u>6,979</u>	<u>6,231</u>
Gross profit	1,323	1,123	1,183	4,439	4,278
Selling, general and administrative expense	694	585	683	2,503	2,429
Research and development expense	488	474	457	1,939	1,874
Operating margin <sup>(a)</sup>	<u>141</u>	<u>64</u>	<u>43</u>	<u>(3)</u>	<u>(25)</u>
Amortization of intangibles	7	8	6	26	17
In-process research and development expense	6	-	-	22	-
Special charges	29	22	24	105	169
(Gain) loss on sale of businesses and assets	(164)	(15)	11	(206)	47
Shareholder litigation settlement expense (recovery)	234	38	2,474	(219)	2,474
Operating earnings (loss)	<u>29</u>	<u>11</u>	<u>(2,472)</u>	<u>269</u>	<u>(2,732)</u>
Other income - net	34	58	113	212	295
Interest expense					
Long-term debt	(84)	(85)	(54)	(272)	(209)
Other	<u>(13)</u>	<u>(20)</u>	<u>(3)</u>	<u>(68)</u>	<u>(10)</u>
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net earnings (loss) of associated companies	(34)	(36)	(2,416)	141	(2,656)
Income tax benefit (expense)	9	(15)	134	(60)	81
Minority interests - net of tax	(25)	(51)	(2,282)	81	(2,575)
Equity in net earnings (loss) of associated companies - net of tax	(58)	(11)	(2)	(59)	(39)
Net earnings (loss) from continuing operations	<u>3</u>	<u>(1)</u>	<u>-</u>	<u>(3)</u>	<u>3</u>
Net earnings (loss) from discontinued operations - net of tax	(80)	(63)	(2,284)	19	(2,611)
Net earnings from discontinued operations - net of tax	-	-	(2)	-	1
Net earnings (loss) before cumulative effect of accounting change	<u>(80)</u>	<u>(63)</u>	<u>(2,286)</u>	<u>19</u>	<u>(2,610)</u>
Cumulative effect of accounting change - net of tax	-	-	-	9	-
Net earnings (loss)	<u>\$ (80)</u>	<u>\$ (63)</u>	<u>\$ (2,286)</u>	<u>\$ 28</u>	<u>\$ (2,610)</u>
Average shares outstanding (millions) - Basic <sup>(b)</sup>	434	434	434	434	434
Average shares outstanding (millions) - Diluted <sup>(b)</sup>	434	434	434	434	434
Basic and diluted earnings (loss) per common share					
- from continuing operations	\$ (0.19)	\$ (0.14)	\$ (5.26)	\$ 0.06	\$ (6.02)
- from discontinued operations	0.00	0.00	0.00	0.00	0.00
Basic and diluted earnings (loss) per common share	<u>\$ (0.19)</u>	<u>\$ (0.14)</u>	<u>\$ (5.26)</u>	<u>\$ 0.06</u>	<u>\$ (6.02)</u>

(a) Operating margin is a non-GAAP measure defined as gross profit less SG&A and R&D expenses divided by revenue. The Company believes that operating margin is a meaningful measurement of operating performance. Commencing in 2007 the CEO will use both Management EBT and Operating Margin as the primary financial measures in assessing performance and allocating resources to our operating segments.

(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.