
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

For the Quarterly Period Ended March 31, 1998

OR

**Transition Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

For the Transition Period From _____ to _____

Commission file number **1-7260**

Northern Telecom Limited

(Exact name of registrant as specified in its charter)

Canada
(State or other jurisdiction of incorporation or organization)

62-12-62580
(I.R.S. Employer Identification No.)

8200 Dixie Road, Suite 100
Brampton, Ontario, Canada
(Address of principal executive offices)

L6T 5P6
(Zip Code)

Registrant's telephone number including area code **(905) 863-0000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days.

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as at **March 31, 1998**

524,493,687 common shares without nominal or par value

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All dollar amounts in this document are in United States dollars unless otherwise stated.

PART I
FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

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NORTHERN TELECOM LIMITED

Condensed Consolidated Statements of Operations (unaudited)
(millions of U.S. dollars except per share figures)

	Three months ended	
	March 31,	
	1998	1997
Revenues (note 2).....	\$ 3,510	\$ 3,353
Cost of revenues	2,046	2,038
Gross profit	1,464	1,315
Selling, general and administrative expense.....	613	616
Research and development expense (note 3).....	575	474
Purchased in-process research and development expense (note 4).....	204	-
Goodwill amortization.....	13	12
Operating earnings	59	213
Investment and other income (expense) - net	14	(3)
Interest expense		
Long-term debt.....	(31)	(31)
Other	(15)	(5)
Earnings before income taxes.....	27	174
Income tax provision (note 4).....	82	62
Net earnings (loss).....	(55)	112
Dividends on preferred shares	8	4
Net earnings (loss) applicable to common shares.....	\$ (63)	\$ 108
Earnings (loss) per common share *.....	\$ (.12)	\$.21
Dividends declared per common share.....	\$.075	\$.065
* Based on weighted average number of common shares outstanding (millions)	524	522

NORTHERN TELECOM LIMITED

Condensed Consolidated Balance Sheets (unaudited)
(millions of U.S. dollars)

	March 31,	December 31,
	1998	1997
	<u> </u>	<u> </u>
ASSETS		
Current assets		
Cash and short-term investments at cost (approximates market value)....	\$ 538	\$ 1,371
Accounts receivable		
Related parties (note 2)	245	214
Trade (less provision for uncollectibles:		
\$231 for 1998; \$223 for 1997)	4,477	4,666
Inventories (note 7)	2,022	1,765
Prepaid expenses	204	155
Deferred income taxes	395	376
	<u>7,881</u>	<u>8,547</u>
Long-term receivables		
(less provision for uncollectibles: \$24 for 1998; \$25 for 1997).....	<u>347</u>	<u>334</u>
Investments at cost and associated companies at equity	<u>320</u>	<u>285</u>
Plant and equipment at cost	4,800	4,706
Less: Accumulated depreciation	<u>2,745</u>	<u>2,666</u>
	<u>2,055</u>	<u>2,040</u>
Purchased in-process research and development (note 4)	<u>182</u>	<u>-</u>
Goodwill	<u>851</u>	<u>853</u>
Other assets	<u>428</u>	<u>495</u>
Total assets	<u>\$ 12,064</u>	<u>\$ 12,554</u>

NORTHERN TELECOM LIMITED

Condensed Consolidated Balance Sheets (unaudited)
(millions of U.S. dollars)

	March 31,	December 31,
	<u>1998</u>	<u>1997</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable.....	\$ 182	\$ 180
Accounts payable and accrued liabilities		
Trade and other payables	1,145	1,405
Related parties (note 2)	33	4
Payroll.....	118	323
Other accrued liabilities	2,675	2,591
Income taxes payable	167	157
Long-term debt due within one year	<u>14</u>	<u>223</u>
	4,334	4,883
Long-term liabilities		
Deferred income.....	35	28
Long-term debt.....	1,566	1,565
Deferred income taxes	101	169
Other liabilities.....	<u>376</u>	<u>367</u>
	6,412	7,012
Minority interest in subsidiary companies	<u>137</u>	<u>132</u>
Contingencies (note 8)		
Shareholders' equity		
Preferred shares.....	609	609
Common shares (524,493,687 common shares outstanding in 1998 and 518,880,270 in 1997).....	1,912	1,609
Retained earnings.....	3,295	3,514
Currency translation adjustment.....	<u>(301)</u>	<u>(322)</u>
	5,515	5,410
Total liabilities and shareholders' equity.....	<u><u>\$ 12,064</u></u>	<u><u>\$ 12,554</u></u>

NORTHERN TELECOM LIMITED

Condensed Consolidated Statements of Cash Flows (unaudited)
(millions of U.S. dollars)

	Three months ended	
	March 31,	
	<u>1998</u>	<u>1997</u>
Cash and short-term investments at beginning of period	\$ 1,371	\$ 730
Operating activities		
Net earnings (loss)	(55)	112
Items not involving cash		
Depreciation and amortization	125	132
Purchased in-process research and development expense	204	-
Equity in net earnings of associated companies		
in excess of dividends received.....	(1)	3
Deferred income taxes	(68)	(80)
Increase in other liabilities	24	20
Other	31	(53)
Increase in non-cash working capital components	(481)	(83)
Total	<u>(221)</u>	<u>51</u>
Investing activities		
Expenditures for plant and equipment.....	(102)	(70)
Disposals of plant and equipment.....	2	2
Increase in long-term receivables.....	(27)	(5)
Acquisitions and other investments (note 4)	(166)	(49)
Total	<u>(293)</u>	<u>(122)</u>
Financing activities		
Dividends on common and preferred shares	(46)	(37)
Increase (decrease) in notes payable	4	(25)
Net increase (reduction) in long-term debt.....	(209)	67
Issue of common shares	57	106
Common shares purchased for cancellation	(125)	(61)
Total	<u>(319)</u>	<u>50</u>
Cash and short-term investments at end of period	<u>\$ 538</u>	<u>\$ 709</u>
Decrease in cash and short-term investments	<u>\$ (833)</u>	<u>\$ (21)</u>

NORTHERN TELECOM LIMITED

Notes to Condensed Consolidated Financial Statements (unaudited) (millions of U.S. dollars except per share figures, unless otherwise stated)

1. Accounting policies

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. With respect to the condensed consolidated financial statements of Northern Telecom Limited (the "Corporation") and its subsidiary companies (collectively, "Nortel"), there are no material differences between Canadian and United States generally accepted accounting principles ("GAAP") except as described in notes 3, 4, 5 and 6. Nortel operations domiciled in Canada measure their operations in Canadian dollars and translate to U.S. dollars for reporting purposes.

For a full description of the other accounting policies of Nortel, reference is made to the Annual Report on Form 10-K for the year ended December 31, 1997.

In the opinion of management, all adjustments necessary to a fair statement of the results for the periods presented have been made and all such adjustments are of a normal recurring nature.

All references to 1997 common shares and per share amounts have been restated to reflect the two-for-one stock split which was effective January 7, 1998.

2. Related party transactions

Nortel engages in transactions with certain of its equity-owned investments, with joint ventures of the Corporation, and with entities which are, along with Nortel, subject to common ownership through BCE Inc., the Corporation's parent company. These transactions are sales and purchases of goods under usual trade terms and are disclosed at their exchange amount. Transactions with related parties are summarized as follows:

	Three months ended	
	March 31,	
	1998	1997
Revenues	\$ 286	\$ 235
Purchases	\$ 12	\$ 7

3. Research and development

	Three months ended	
	March 31,	
	1998	1997
Research and development expense	\$ 575	\$ 474
Research and development costs incurred on behalf of others*	13	27
Total	\$ 588	\$ 501

* These costs include research and development ("R&D") charged to customers of Nortel pursuant to contracts that provide for full recovery for the estimated cost of development, material, engineering, installation and all other attracted costs, which are accounted for as contract costs.

The above amounts are net of global investment tax credits of \$18 and \$32 for the three months ended March 31, 1998 and 1997, respectively. For purposes of reporting under United States GAAP, global investment tax credits are required to be deducted from the income tax provision. The difference in accounting standards for investment tax credits has no effect on the net earnings of the Corporation.

4. Purchased in-process research and development

	Three months ended	
	March 31,	
	<u>1998</u>	<u>1997</u>
January 1	\$ -	\$ -
Plus: Purchased in-process research and development		
from acquisition of Broadband Networks Inc.*	386	-
Less: Purchased in-process research and development expense	(204)	-
March 31	<u>\$ 182</u>	<u>\$ -</u>

* On January 9, 1998, the Corporation acquired all the issued and outstanding common shares of Broadband Networks Inc. ("BNI"), a leader in the design and manufacture of fixed broadband wireless communications networks. The aggregate purchase price was approximately \$426, comprising approximately \$149 in cash and approximately 5.6 million of the Corporation's common shares. The acquisition was accounted for using the purchase method of accounting. The allocation of the purchase price was net tangible assets of \$29, purchased in-process R&D assets of \$386 and goodwill and other assets of \$11. The in-process R&D technology acquired relates to a wireless asynchronous transfer mode ("ATM") system aimed at the Local Multipoint Distribution Service ("LMDS") market. As of the date of acquisition, the technological feasibility of the LMDS network technology had not yet been established and the Corporation expected to complete development of the products and commence sales by December 31, 1998. The purchased in-process R&D assets are being charged to earnings over a nine month period using an accelerated depreciation method principally reflecting the rapid pace of change in broadband wireless technologies, the need for further significant R&D expenditures to bring the products to commercial availability, and the anticipated integration of BNI's technology into Nortel's product portfolio under development.

For purposes of reporting under United States GAAP, purchased in-process R&D is written off immediately (see note 6).

The Corporation's effective tax rate for the three months ended March 31, 1998 was 35.5 percent, excluding the effect of the purchased in-process R&D expense.

5. Interests in joint ventures

Nortel's proportionate share of interests in joint ventures, including goodwill attributable to the joint ventures, are included in the condensed consolidated financial statements and are summarized below. A substantial portion of the amounts proportionately consolidated relates to the operations of Matra Communication S.A.S. Nortel's other joint ventures are in Germany and China.

For purposes of reporting under United States GAAP, the equity method of accounting is required for joint ventures. The difference in accounting standards for joint ventures has no effect on the net earnings of the Corporation.

	<u>March 31,</u> <u>1998</u>	<u>December 31,</u> <u>1997</u>
<i>Balance sheets</i>		
Assets	\$ 951	\$ 952
Liabilities	\$ 590	\$ 569

	<u>Three months ended</u> <u>March 31,</u>	
	<u>1998</u>	<u>1997</u>
<i>Statements of operations</i>		
Revenues	\$ 190	\$ 168
Net loss	\$ 13	\$ 25

<i>Statements of cash flows</i>		
Cash flow from operating activities	\$ (39)	\$ 7
Cash flow from investing activities	5	(10)
Cash flow financing activities	9	6
Total cash flow	\$ (25)	\$ 3

6. Reconciliation of results reported in accordance with Canadian GAAP with United States GAAP

Nortel's accounting policies are consistent in all material aspects with United States GAAP with the following exceptions:

Net earnings reconciliation

	<u>Three months ended</u> <u>March 31,</u>	
	<u>1998</u>	<u>1997</u>
Net earnings (loss) applicable to common shares - Canadian GAAP	\$ (63)	\$ 108
Adjustments:		
Postretirement benefits other than pensions (i)	(7)	(7)
Income taxes (ii)	(5)	(2)
Income tax benefit related to stock options (iii)	(4)	(4)
Postemployment benefits (iv)	-	-
Purchased in-process research and development (v)	(182)	-
Net earnings (loss) applicable to common shares - U.S. GAAP	\$ (261)	\$ 95
Basic earnings (loss) per common share - U.S. GAAP (vi)	\$ (.50)	\$.18
Diluted earnings (loss) per common share - U.S. GAAP (vi)	\$ (.50)	\$.18
Common share effect of GAAP differences in year	\$ (.38)	\$ (.03)
Cumulative per common share effect of GAAP differences		
- since January 1, 1993	\$ (1.01)	\$ (.43)

The cumulative effect on retained earnings of GAAP differences since January 1, 1993, as at March 31, 1998 and December 31, 1997, was \$(520) and \$(322), respectively. All references to 1997 per share amounts have been restated to reflect the two-for-one stock split which was effective January 7, 1998.

- (i) For the purpose of reporting under United States GAAP, companies are required to accrue the expected cost of postretirement benefits other than pensions during the years employees provide service to the company. The adjustment represents the difference between recognizing the cost of postretirement benefits as claims are paid and using the accrual method. The postretirement benefit liability that has not been accrued under Canadian GAAP as at March 31, 1998 was \$455.
- (ii) For the purpose of reporting under United States GAAP, companies are required to use an asset and liability approach in accounting for income taxes. The adjustment represents the difference between the deferral method and the asset and liability method. The net deferred income tax asset as at March 31, 1998 under United States GAAP was \$343.
- (iii) For the purpose of reporting under United States GAAP, the tax benefit associated with deductible stock option compensation is treated as an increase in share capital. For reporting under Canadian GAAP, the transaction is treated as a reduction in the income tax provision.
- (iv) For the purpose of reporting under United States GAAP, companies are required to accrue the expected cost of benefits to former or inactive employees after employment, but before retirement. The adjustment represents the difference between recognizing the cost of postemployment benefits as claims are paid and using the accrual method. The postemployment benefit liability that has not been accrued under Canadian GAAP as at March 31, 1998 was \$27.
- (v) For the purpose of reporting under United States GAAP, companies are required to immediately write-off purchased in-process R&D and accordingly, the purchased in-process R&D acquired on the acquisition of BNI of \$386 was written off at the time of acquisition. The adjustment represents the difference between the write-off of purchased in-process R&D recorded under United States GAAP and the purchased in-process R&D expense recorded under Canadian GAAP.
- (vi) For the purposes of reporting under United States GAAP, companies are required to present basic earnings per share ("EPS"). This is consistent with the calculation for Canadian GAAP. Companies are also required to present diluted EPS (which includes the impact of convertible securities and stock options) for all entities with complex capital structures.

Statements of cash flows

For the purposes of reporting under United States GAAP, the following additional disclosures are required:

	Three months ended	
	March 31,	
	1998	1997
Income taxes paid.....	\$ 135	\$ 84
Interest paid.....	\$ 40	\$ 24

Balance sheets

As at March 31, 1998 and December 31, 1997, there were no material differences between balance sheet item amounts calculated under United States GAAP and those calculated under Canadian GAAP and shown on Nortel's condensed consolidated balance sheets, with the exception of the effect of proportionately consolidating the operations that are under joint control as disclosed in note 5, the "accrued postretirement benefit cost" as discussed in part (i) of this note, "net deferred income taxes" as discussed in part (ii) of this note, the "tax benefit related to stock options" as discussed in part (iii) of this note, the "net accrued postemployment benefit cost" as discussed in part (iv) of this note, and the "purchased in-process research and development" as discussed in part (v) of this note.

Statements of comprehensive income

For the purposes of reporting under United States GAAP, the following statement of comprehensive income is required:

	Three months ended	
	March 31,	
	<u>1998</u>	<u>1997</u>
Net earnings (loss) applicable to common shares - U.S. GAAP	\$ (261)	\$ 95
Change in currency translation adjustment	<u>21</u>	<u>(44)</u>
Comprehensive income (loss)	<u><u>\$ (240)</u></u>	<u><u>\$ 51</u></u>

7. Inventories

	March 31,	December 31,
	<u>1998</u>	<u>1997</u>
Raw materials.....	\$ 629	\$ 567
Work in process	464	358
Finished goods	<u>929</u>	<u>840</u>
	<u><u>\$ 2,022</u></u>	<u><u>\$ 1,765</u></u>

8. Contingencies

In 1993, certain holders of the Corporation's securities commenced a class action in the United States District Court for the Southern District of New York alleging that the Corporation and certain of its officers violated the Securities Exchange Act of 1934 and common law by making material misstatements of, or omitting to state, material facts relating to the business operations and prospects and financial condition of the Corporation. At this stage of this action, the Corporation cannot determine whether this action will have a material adverse impact on the consolidated financial position or results of operations of the Corporation.

9. Subsequent event

On April 22, 1998, the Corporation announced the successful acquisition of Aptis Communications, Inc. ("Aptis"), a Massachusetts-based, remote-access data networking start-up company. The acquisition was consummated by way of a merger of Aptis with and into a wholly-owned subsidiary of the Corporation. The aggregate purchase price was approximately \$305. At closing, Nortel issued approximately 2.5 million common shares and paid approximately \$5 in cash to the Aptis security holders. Subject to the fulfillment of certain conditions, approximately \$40 of the Corporation's common shares and cash will be paid to the Aptis security holders over the next three years. The remainder of the purchase price (approximately \$90) is contingent upon the achievement of certain milestone events scheduled to occur within the next five months and is payable, at Nortel's option, in the Corporation's common shares or cash. The acquisition will be accounted for using the purchase method of accounting. It is estimated that 85-95 percent of the purchase price will be allocated to purchased in-process R&D assets. The in-process R&D technology acquired relates to an access and virtual private networks ("VPN") technology aimed at network service providers, carriers and Internet service providers. As of the date of acquisition, the technological feasibility of the acquired technology had not yet been established. The purchased in-process R&D assets will be charged to earnings using an accelerated depreciation method over a period of less than twelve months principally reflecting the rapid pace of change in access and VPN technologies, the need for further significant R&D expenditures to bring the product to commercial availability, and the anticipated integration of Aptis' technology into Nortel's product portfolio under development. Goodwill and other assets will be amortized on a straight-line basis over their estimated useful lives. For purposes of reporting under United States GAAP, the purchased in-process R&D will be written off immediately.

10. Comparative figures

Certain comparative figures in the condensed consolidated financial statements have been reclassified to conform with the current period's presentation.

ITEM 2.**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

The following provides additional analysis of Nortel's operations and current financial situation. This commentary is supplementary to and should be read in conjunction with the condensed consolidated financial statements (unaudited).

Results of Operations

	Three months ended	
	March 31,	
	1998	1997
Net earnings (loss) applicable to common shares.....	\$ (63)	\$ 108
Earnings (loss) per common share*.....	(.12)	.21
Net earnings applicable to common shares excluding purchased in-process research and development expense.....	141	108
Earnings per common share excluding purchased in-process research and development expense*27	.21

* Earnings per common share amounts for 1997 have been restated to reflect the two-for-one stock split which was effective January 7, 1998.

Consolidated revenues for the first quarter of 1998 were \$3.51 billion, an increase of 5 percent over revenues of \$3.35 billion for the same period of 1997. The increase in revenues for the first quarter of 1998 was attributable to a volume increase of approximately 12 percent, partially offset by divestitures of approximately 4 percent and by price reductions of approximately 3 percent. Net earnings (loss) applicable to common shares for the first quarter of 1998 was \$(63) million, \$(.12) per common share, compared with \$108 million, \$.21 per common share, for the same period of 1997. Consolidated revenues for the first quarter of 1998 increased by 9 percent over the same period of 1997 when adjusted for the impact of divested businesses, primarily the April 1, 1997 divestiture of Nortel's TTS Meridian Systems Inc. and Nortel Communications Systems Inc. distribution channels to WilTel Communications, LLC (the "WilTel Transaction"). Net earnings (loss) applicable to common shares were calculated after dividends on preferred shares of \$8 million in the first quarter of 1998 and \$4 million in the first quarter of 1997.

On January 9, 1998, the Corporation acquired all the issued and outstanding common shares of Broadband Networks Inc. ("BNI"), a leader in the design and manufacture of fixed broadband wireless communications networks. The aggregate purchase price was approximately \$426 million, comprising approximately \$149 million in cash and approximately 5.6 million of the Corporation's common shares. The acquisition was accounted for using the purchase method of accounting. The allocation of the purchase price was net tangible assets of \$29 million, purchased in-process research and development ("R&D") assets of \$386 million and goodwill and other assets of \$11 million. The in-process R&D technology acquired relates to a wireless asynchronous transfer mode ("ATM") system aimed at the Local Multipoint Distribution Service ("LMDS") market. As of the date of acquisition, the technological feasibility of the LMDS network technology had not yet been established and the Corporation expected to complete development of the products and commence sales by December 31, 1998. The purchased in-process R&D assets are being charged to earnings over a 9 month period using an accelerated depreciation method principally reflecting the rapid pace of change in broadband wireless technologies, the need for further significant R&D expenditures to bring the products to commercial availability, and the anticipated integration of BNI's technology into Nortel's product portfolio under development. For the purposes of reporting under United States GAAP, the purchased in-process R&D was written off immediately.

The net earnings applicable to common shares excluding the purchased in-process R&D expense of \$204 million for the first quarter of 1998 was \$141 million (\$.27 per common share), an earnings per share increase of 29 percent over \$108 million (\$.21 per common share) for the same period in 1997, primarily reflecting a substantial increase in

operating earnings (excluding the purchased in-process R&D expense) and investment and other income - net, partially offset by a substantial increase in interest expense.

In June 1997, the Corporation announced special charges aggregating \$95 million, comprising a write-down of \$51 million related to certain investments held by the Corporation and a provision of \$44 million for the rationalization and/or relocation of certain of the Corporation's manufacturing facilities. As at March 31, 1998, the remaining restructuring provision was \$13 million. The activities are on schedule and are expected to be substantially completed by June 30, 1998.

Product Line Revenues

	Three months ended March 31,				
	1998	% of Total	% change from 1997	1997	% of Total
Wireless Networks	\$ 883	25%	20%	\$ 735	22%
Enterprise Networks	842	24%	(5)%	888	26%
Public Carrier Networks	836	24%	(3)%	858	26%
Broadband Networks	829	24%	29%	642	19%
Other	120	3%	(48)%	230	7%
Total *	\$ 3,510	100%	5%	\$ 3,353	100%
* Data and Multimedia Communications portfolio of products (Revenues included in product line revenues above)	\$ 196	6%	29%	\$ 152	5%

The Corporation has reclassified its 1997 revenues by product line to reflect the repositioning of certain businesses, primarily divested businesses, within its management structure. The primary effect of this reclassification is to move revenues from enterprise networks to other as a result of the WiTel Transaction.

Revenues increased in the first quarter of 1998 compared to the first quarter of 1997 as a result of higher revenues in broadband networks and wireless networks partially offset by lower revenues in other, enterprise networks and public carrier networks. Software sales for the first quarter of 1998 were down slightly as compared to the same period of 1997.

The increase of 20 percent in wireless networks revenues in the first quarter of 1998 was primarily due to substantially higher sales in Caribbean and Latin America ("CALA"), Asia Pacific and Europe. Sales in the first quarter of 1998, when compared to the same period last year, were significantly lower in the United States and lower in Canada.

The decrease of 5 percent in enterprise networks revenues in the first quarter of 1998 was primarily due to substantially lower sales in Canada and lower sales in the United States. Sales in the first quarter of 1998, when compared to the same period last year, were also moderately higher in Europe, down in Asia Pacific, and up slightly in CALA.

The decrease of 3 percent in public carrier networks revenues in the first quarter of 1998 was primarily due to substantially lower sales in Asia Pacific partially offset by significantly higher sales in Europe. Sales in the first quarter of 1998, when compared to the same period of 1997, were down substantially in CALA and essentially flat in the United States and Canada.

The increase of 29 percent in broadband networks revenues in the first quarter of 1998 was primarily due to substantially higher sales in the United States and Canada. Sales in the first quarter of 1998, when compared to the same period last year, were significantly higher in Europe, Asia Pacific and CALA.

The decrease of 48 percent in other revenues, comprising revenues from divested businesses, miscellaneous other products and interest income of finance subsidiaries, in the first quarter of 1998 was primarily the result of the WilTel Transaction.

Geographic Revenues

	Three months ended March 31				
	1998	% of Total	% change from 1997	1997	% of Total
United States.....	\$ 1,876	53%	(2)%	\$ 1,918	57 %
Europe	828	24%	15%	722	22 %
Canada	305	9%	(6)%	325	10 %
Other	501	14%	29%	388	11 %
Total.....	\$ 3,510	100%	5%	\$ 3,353	100%

Revenues (based on the location of the customer rather than the location of the selling organization) increased in other markets, comprising Asia Pacific and CALA, and in Europe (including Africa, the Commonwealth of Independent States and the Middle East), and decreased in the United States and in Canada in the first quarter of 1998 compared to the same period of 1997.

The decrease of 2 percent in the first quarter of 1998 in revenues in the United States was primarily the result of substantially increased revenues in broadband networks which were more than offset by a substantial decrease in other revenues (primarily as a result of the WilTel Transaction) and a significant decrease in wireless networks revenues. Revenues in the United States also decreased in enterprise networks and were essentially flat in public carrier networks. The slight decrease in revenues in the United States in the first quarter of 1998, compared with the same period of 1997, was primarily due to substantially higher sales to inter-exchange carriers, more than offset by substantially lower sales to wireless customers and distributors (primarily due to the WilTel Transaction).

The increase of 15 percent in the first quarter of 1998 in revenues in Europe was primarily due to substantially higher sales in wireless networks. Sales in the first quarter of 1998 compared with the same period of 1997 reflected significantly higher public carrier networks, other, and broadband networks revenues and slightly higher enterprise networks revenues.

The decrease of 6 percent in the first quarter of 1998 in revenues in Canada was due to significantly decreased sales to Bell Canada and other subsidiaries and associated companies of BCE Inc., partially offset by increased sales to other Canadian customers. The decrease in revenue in Canada is primarily the result of substantially lower sales in enterprise networks and other revenues (primarily due to the WilTel Transaction) which were partially offset by a substantial increase in broadband networks revenues.

Revenues in other markets increased by 29 percent in the first quarter of 1998. Revenues in CALA in the first quarter of 1998 increased substantially from the first quarter of 1997, primarily due to a substantial increase in wireless networks partially offset by a substantial decrease in public carrier networks revenues. Revenues in Asia Pacific in the first quarter of 1998 increased significantly from the first quarter of 1997, primarily due to a substantial increase in wireless networks, partially offset by substantially lower public carrier networks revenues.

The Asia Pacific region has been, and is expected to continue to be, affected for the foreseeable future by unstable economies caused in part by the volatility of certain currencies. Due to the small proportion of Nortel's sales derived from the Asia Pacific countries affected by the economic instability, this situation is not expected to have a material

adverse effect on future consolidated results of operations. Revenues from the Asia Pacific region (excluding China) were less than 4 percent and 3 percent, respectively, of the consolidated revenues for the year ended December 31, 1997 and the first quarter of 1998.

Gross Profit

Gross profit in the first quarter of 1998 increased by \$149 million to \$1.5 billion, an increase of 11 percent compared to the first quarter of 1997. Gross margin for the first quarter of 1998 was 41.7 percent of revenues compared with 39.2 percent of revenues in the first quarter of 1997.

The increase in gross profit and gross margin for the first quarter of 1998 compared to the same period of 1997 was primarily due to increased sales in broadband networks and wireless networks and changes in sales mix, partially offset by reduced gross profit and gross margin in other, which was primarily the result of the WilTel Transaction.

Although competitive pricing pressure continues to exist, Nortel has been able to offset such pressure through the sale of higher margin products and manufacturing cost-reduction programs. Gross margin is affected by the level of software sales. Gross margin is being negatively impacted by the introduction of new products and the continued expansion into new markets, and by the increased inclusion of products manufactured by other suppliers in network solutions offered by Nortel.

Selling, General and Administrative ("SG&A") Expense

SG&A expense was \$613 million for the first quarter of 1998, compared with \$616 million for the same period in 1997. SG&A expense decreased to 17.5 percent of total revenues in the first quarter of 1998, compared with 18.4 percent for the same period of 1997. The decrease in SG&A expense for the first quarter of 1998 compared with the same period of 1997 is the result of reduced SG&A expense due to divested businesses (primarily resulting from the WilTel Transaction), partially offset by the continued funding of North American and international market growth, particularly in broadband networks and public carrier networks, as well as ongoing investments in computer systems infrastructure relating to the global supply chain management system and the preparation for the year 2000 compliance (see "Impact of the Year 2000 Issue").

Research and Development Expense

Total R&D expense, which is net of global investment tax credits of \$18 million and \$32 million for the first quarter of 1998 and 1997, respectively, including R&D costs incurred on behalf of others, was \$588 million for the first quarter of 1998, compared with \$501 million in the same period last year. Nortel's R&D expense in the first quarter of 1998 was \$575 million (16.4 percent of total revenues), compared with \$474 million (14.1 percent of total revenues) in 1997. The level of investment reflects ongoing programs across all network businesses for new products, process development, advanced capabilities and service for a broad array of applications. R&D investment increased for the first quarter of 1998 across all product lines.

Goodwill Amortization

Goodwill amortization charged to operations was \$13 million for the first quarter of 1998 compared with \$12 million in the same period in 1997. Goodwill primarily reflects the investment in STS PLC, Matra Communication S.A.S., and MICOM Communications Corporation.

Investment and Other Income - Net and Interest Expense

Investment and other income - net, including equity in net earnings of associated companies, was income of \$14 million in the first quarter of 1998 compared with an expense of \$3 million in the first quarter of 1997. The increase in the first quarter of 1998 was primarily due to higher equity earnings.

Nortel continues to expand its business globally and, as such, an increasing proportion of its business will be denominated in currencies other than United States dollars. As a result, fluctuations in foreign currencies may have an impact on Nortel's business and financial results. Nortel endeavours to minimize the impact of such currency fluctuations through its ongoing commercial practices and by attempting to hedge its exposures to major currencies.

In attempting to manage this foreign exchange risk, Nortel identifies operations and transactions that may have foreign exchange exposure, based upon, among other factors, the excess or deficiency of foreign currency receipts over foreign currency expenditures in each of Nortel's significant foreign currencies. Nortel's significant currency flows for the first quarter of 1998 were in United States dollars, Canadian dollars, United Kingdom pounds and French francs. For the first quarter of 1998, the net impact of foreign exchange fluctuations was a loss as compared to a gain for the same period of 1997.

Interest expense was \$46 million in the first quarter of 1998, compared with \$36 million in the same period last year. The increased interest expense in the first quarter of 1998 over the same period of 1997 is primarily due to the increased use of short-term debt, including commercial paper, to fund cash requirements.

Income Taxes

The provision for income taxes for the first quarter of 1998 was 35.5 percent of pre-tax earnings (excluding the effect of the purchased in-process R&D expense), compared with 35.5 percent of pre-tax earnings for the same period in 1997. When the impact of the in-process R&D expense is included, the provision for income taxes for the first quarter of 1998 was 307 percent of pre-tax earnings.

Order Backlog

Order backlog at March 31, 1998 was \$6.48 billion, up 3 percent from the \$6.30 billion of orders on hand at March 31, 1997 and down 1 percent from the \$6.56 billion of orders on hand at December 31, 1997. The majority of the backlog is scheduled for delivery within twelve months.

Liquidity and Capital Resources

Cash and short-term investments of \$538 million at March 31, 1998 decreased by \$833 million from \$1.37 billion at December 31, 1997. Cash used by operating activities amounted to \$221 million for the first quarter of 1998, compared with cash provided by operating activities of \$51 million for the same period of 1997. The increase in cash used by operating activities in the first quarter of 1998 as compared to the same period of 1997 is primarily the result of increased inventory levels in the first quarter of 1998. Capital expenditures amounted to \$102 million for the first quarter of 1998, an increase of \$32 million from the same period last year. Acquisitions of \$166 million for the first quarter of 1998, an increase of \$117 million from the same period last year, is primarily related to Nortel's acquisition of BNI on January 9, 1998. In the first quarter of 1998, 2,516,200 common shares were purchased for cancellation at a cost of \$125 million, pursuant to the Corporation's share repurchase program (as discussed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997 (the "Form 10-K")).

The total debt to total capitalization ratio at March 31, 1998 was 23 percent compared with 26 percent at December 31, 1997 and March 31, 1997. The decrease in the total debt to total capitalization ratio was primarily due to the repayment on March 9, 1998 of C\$300 million 7.45 percent Notes issued by the Corporation.

The Corporation and Northern Telecom Capital Corporation ("NTCC"), an indirect wholly owned subsidiary of the Corporation, have \$200 million of debt securities and warrants to purchase debt securities, to be offered by either the Corporation or NTCC, with the payment of any debt securities offered by NTCC guaranteed by the Corporation, registered with the United States Securities and Exchange Commission pursuant to a shelf registration program. This registration statement is in addition to the \$500 million of debt securities and warrants to purchase debt securities remaining available to the Corporation under a separate United States registration statement. The Corporation has also filed in each of the provinces of Canada a short form shelf prospectus to issue up to C\$500 million of debt securities and warrants to purchase debt securities of the Corporation under a Canadian shelf program. On April 17, 1998, Nortel amended its five-year and 364-day syndicated credit agreements which permit borrowings in an aggregate amount not to exceed \$1.5 billion, of which \$1.0 billion relates to the five-year agreements and \$500 million relates to the 364-day agreements, to, among other things, extend the agreements for an additional one year and 364 days, respectively. The entire amount of these committed facilities remains available. Nortel expects to meet its cash requirements from operations and conventional sources of external financing.

The competitive environment in which Nortel operates requires Nortel and many of its principal competitors to provide significant amounts of medium-term and long-term customer financing in connection with the sale of products and services. While Nortel has generally been able to place its customer financing with third party lenders,

Nortel anticipates that, due to the amount of financing it expects to provide and the higher risks typically associated with such financings (particularly where provided to start-up operations or to customers in developing countries), the amount of such financings required to be supported directly by Nortel for at least the initial portion of their term will continue to remain at a significant level in the future. As at March 31, 1998, Nortel had entered into certain financing agreements for the future provision of up to approximately \$1.13 billion of customer financing and had outstanding offers or commitments, subject to fulfillment of certain conditions, to provide up to approximately \$1.13 billion of additional customer financings (not all of which offers or commitments are expected to be taken up). Nortel expects to continue to arrange for third party lenders to assume customer financing obligations agreed to by Nortel and to fund other customer financings directly supported by Nortel from working capital and conventional sources of external financing in the normal course.

Nortel has entered into supply contracts with customers for products and services, which in some cases involve new technologies currently being developed or which have not yet been commercially deployed by Nortel or require Nortel to build and operate networks on a "turnkey" basis. These supply contracts may contain delivery and installation timetables and performance criteria which, if not met, could result in Nortel paying substantial penalties or liquidated damages, the termination of the related supply contract, and/or lower shared revenues under a turnkey arrangement.

Impact of the Year 2000 Issue

Disclosure of the impact of the Year 2000 issue is contained in the Form 10-K.

Legal Proceedings

Disclosure of legal proceedings is contained in the Form 10-K.

Environmental Matters

Nortel, primarily as a result of its manufacturing operations, is subject to numerous environmental laws and regulations and is exposed to liabilities and compliance costs arising from its past and current generating, handling, processing, recycling, storing, discharging, and disposing of hazardous substances and wastes. Disclosure of environmental matters is contained in the Form 10-K.

Recent Pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"), which will be effective for the Corporation's 1998 annual consolidated financial statements. FAS 131 redefines how operating segments are determined and requires disclosure of certain financial and descriptive information regarding those segments. The Corporation has determined that under the guidelines of FAS 131, the Corporation has three operating segments: carrier networks (comprised of public carrier networks, broadband networks, wireless networks), enterprise networks, and other. The Corporation's 1998 annual consolidated financial statements will include the required FAS 131 disclosures for each of these three operating segments.

Subsequent Event

On April 22, 1998, the Corporation announced the successful acquisition of Aptis Communications, Inc. ("Aptis"), a Massachusetts-based, remote-access data networking start-up company. The acquisition was consummated by way of a merger of Aptis with and into a wholly-owned subsidiary of the Corporation. The aggregate purchase price was approximately \$305 million. At closing, Nortel issued approximately 2.5 million common shares and paid approximately \$5 million in cash to the Aptis security holders. Subject to the fulfillment of certain conditions, approximately \$40 million of the Corporation's common shares and cash will be paid to the Aptis security holders over the next three years. The remainder of the purchase price (approximately \$90 million) is contingent upon the achievement of certain milestone events scheduled to occur within the next five months and is payable, at Nortel's option, in the Corporation's common shares or cash. The acquisition will be accounted for using the purchase method of accounting. It is estimated that 85-95 percent of the purchase price will be allocated to purchased in-process R&D assets. The in-process R&D technology acquired relates to an access and virtual private networks ("VPN") technology aimed at network service providers, carriers and Internet service providers. As of the date of

acquisition, the technological feasibility of the acquired technology had not yet been established. The purchased in-process R&D assets will be charged to earnings using an accelerated depreciation method over a period of less than twelve months principally reflecting the rapid pace of change in access and VPN technologies, the need for further significant R&D expenditures to bring the product to commercial availability, and the anticipated integration of Aptis' technology into Nortel's product portfolio under development. Goodwill and other assets will be amortized on a straight-line basis over their estimated useful lives. For purposes of reporting under United States GAAP, the purchased in-process R&D will be written off immediately.

ITEM 3.**Quantitative and Qualitative Disclosures About
Market Risk**

Market risk represents the risk of loss that may impact the Condensed Consolidated Financial Statements of the Corporation due to adverse changes in financial market prices and rates. The Corporation's market risk exposure is primarily a result of fluctuations in interest rates and foreign exchange rates. Disclosure of market risk is contained in the Form 10-K.

PART II
OTHER INFORMATION

ITEM 1. Legal Proceedings

The Form 10-K for the year ended December 31, 1997 contains a description of legal proceedings.

ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits:

10.1 Resolutions of the Board of Directors of the Corporation dated January 24, 1998 related to the remuneration of the Chairman of the Board.

b) Reports on Form 8-K:

The Corporation filed a Report on Form 8-K dated January 12, 1998 related to the successful completion of its offer to purchase all of the issued and outstanding shares of the Broadband Networks Inc., on a fully diluted basis, for an aggregate purchase price of approximately C\$593 million.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**NORTHERN TELECOM LIMITED
(Registrant)**

Chief Financial Officer

Chief Accounting Officer

"C.W.M. SCOTT"

C.W.M. SCOTT

Executive Vice-President, Corporate and
Chief Financial Officer

"A.J. DONOGHUE"

A.J. DONOGHUE

Vice-President and Controller

Date: April 29, 1998