

## PART II

### ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common shares are listed and posted for trading on the New York Stock Exchange, or NYSE, in the U.S. and on the Toronto Stock Exchange, or TSX, in Canada. The following table sets forth the high and low sale prices of our common shares as reported on the NYSE composite tape and on the TSX.

		New York Stock Exchange Composite Tape		Toronto Stock Exchange (Canadian \$)	
		High	Low	High	Low
2006	Fourth Quarter . . . . .	\$27.18	\$19.30	\$31.59	\$21.80
	Third Quarter . . . . .	23.90	19.00	26.80	21.40
	Second Quarter . . . . .	31.00	20.20	36.30	22.40
	First Quarter . . . . .	34.30	27.30	40.20	31.30
2005	Fourth Quarter . . . . .	35.70	27.50	42.20	32.10
	Third Quarter . . . . .	33.80	25.10	40.60	30.70
	Second Quarter . . . . .	29.10	22.60	36.30	28.50
	First Quarter . . . . .	36.20	26.20	44.00	32.30

On February 28, 2007, the last sale price on the NYSE was \$29.98 and on the TSX was Canadian \$35.06.

On February 28, 2007, approximately 138,500 registered shareholders held 100% of our outstanding common shares. These included the Canadian Depository for Securities and the Depository Trust Company, two clearing corporations, which held a total of approximately 97.89% of our common shares on behalf of other shareholders.

#### Dividends

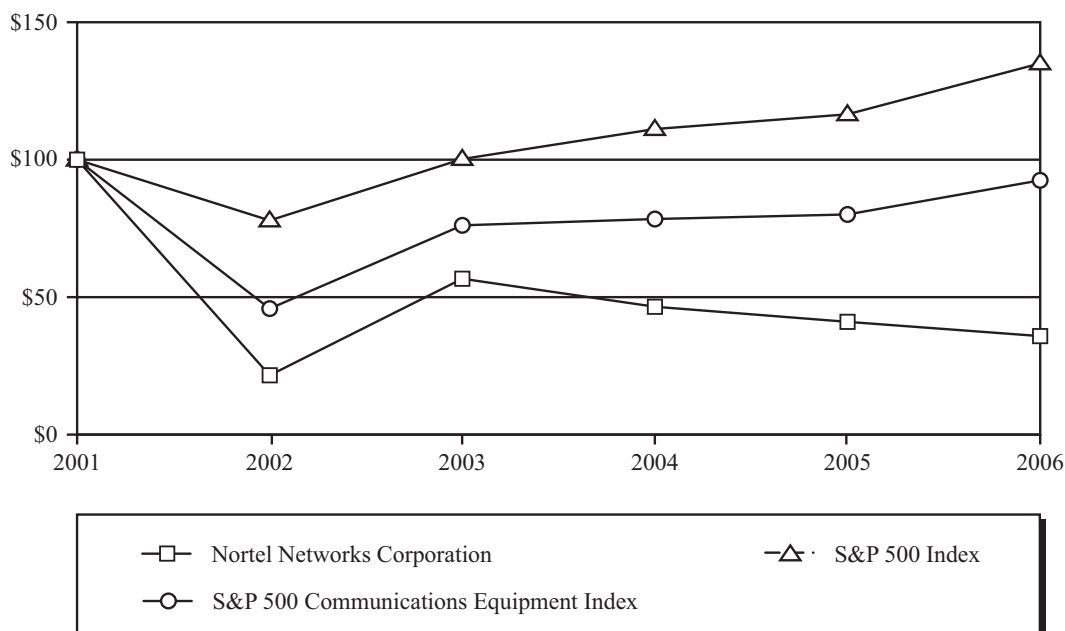
On June 15, 2001, we announced that our Board of Directors had decided to discontinue the declaration and payment of common share dividends. As a result, dividends have not been declared and paid on our common shares since June 29, 2001, and future dividends will not be declared unless and until our Board of Directors decides otherwise. On July 26, 2001, our Board of Directors suspended the operation of the Nortel Networks Corporation Dividend Reinvestment and Stock Purchase Plan.

#### Securities Authorized for Issuance Under Equity Compensation Plans

For a discussion of our equity compensation plans, please see the Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters section of this report.

The following graph compares the yearly percentage change in the cumulative total shareholder return on our common shares to the cumulative total return of the S&P 500 Composite Stock Index (or S&P 500 Index) and the S&P 500 Communications Equipment Index for the period which commenced on December 31, 2001 and ended on December 31, 2006.(1)

## Shareholder return performance graph



### Indexed Returns Years Ending

Company Index	Base Period					
	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006
Nortel Networks Corporation	100	21.58	56.70	46.51	41.02	35.83
S&P 500 Index	100	77.90	100.25	111.15	116.51	135.03
S&P 500 Communications Equipment Index	100	45.83	76.12	78.42	80.08	92.49

(1) Assumes that \$100.00 was invested in our common shares on the NYSE and in each of the indices on December 31, 2001, and that all dividends were reinvested.

## Canadian Tax Matters

### Dividends

Under the U.S.-Canada Income Tax Convention (1980), or the Convention, Canadian withholding tax of 15% generally applies to the gross amount of dividends (including stock dividends) paid or credited to beneficial owners of our common shares:

- who are resident in the U.S. for the purposes of the Convention; and
- who do not hold the shares in connection with a business carried on through a permanent establishment or a fixed base in Canada.

The Convention provides an exemption from withholding tax on dividends paid or credited to certain tax-exempt organizations that are resident in the U.S. for purposes of the Convention. Persons who are subject to the U.S. federal income tax on dividends may be entitled, subject to certain limitations, to either a credit or deduction with respect to Canadian income taxes withheld with respect to dividends paid or credited on our common shares.

### Sales or Other Dispositions of Shares

Gains on sales or other dispositions of our common shares by a non-resident of Canada are generally not subject to Canadian income tax, unless the holder realizes the gains in connection with a business carried on in Canada. A gain

realized upon the disposition of our common shares by a resident of the U.S. that is otherwise subject to Canadian tax may be exempt from Canadian tax under the Convention. Where our common shares are disposed of by way of our acquisition of such common shares, other than a purchase in the open market in the manner in which common shares would normally be purchased by any member of the public in the open market, the amount paid by us in excess of the paid-up capital of such common shares will be treated as a dividend, and will be subject to non-resident withholding tax.

### Sales of Unregistered Securities

During the fourth quarter of 2006, we issued an aggregate of 2,195 shares upon the exercise of options granted under the Nortel Networks/BCE 1985 Stock Option Plan and the Nortel Networks/BCE 1999 Stock Option Plan. The common shares issued on the exercise of these options were issued outside of the U.S. to BCE Inc., or BCE, employees who were not U.S. persons at the time of option exercise, or to BCE in connection with options that expired unexercised or were forfeited. The common shares issued are deemed to be exempt from registration pursuant to Regulation S under the Securities Act. All funds received by us in connection with the exercise of stock options granted under the two Nortel Networks/BCE stock option plans are transferred in full to BCE pursuant to the terms of the May 1, 2000 plan of arrangement pursuant to which we were spun off from BCE, except for nominal amounts paid to us to round up fractional entitlements into whole shares. We keep these nominal amounts and use them for general corporate purposes.

<u>Date of Exercise</u>	<u>Number of Common Shares Issued Without U.S. Registration Upon Exercise of Stock Options Under Nortel/BCE Plans</u>	<u>Range of Exercise Prices Canadian \$</u>
October 19, 2006 <sup>(1)</sup> .....	13,663	\$ 21.30-\$25.27
November 16, 2006 <sup>(1)</sup> .....	2,121	\$ 25.27
December 14, 2006 .....	617	\$252.74-\$464.85

(1) The number of common shares issued and the range of exercise prices for options exercised in October and November 2006 do not reflect the 1 for 10 share consolidation of our common shares completed on December 1, 2006.

The following table sets forth the total number of share units of Nortel credited to accounts of our directors, in lieu of cash fees, under the Nortel Networks Corporation Directors' Deferred Share Compensation Plan and Nortel Networks Limited Directors' Deferred Share Compensation Plan during the fourth quarter of 2006. These transactions are exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

<u>Date of Grant</u>	<u>Total Number of Common Share Units Acquired under Directors' Deferred Share Compensation Plans</u>	<u>Price per Common Share (or Unit)</u>
December 29, 2006 .....	12,748.9452 <sup>(1)</sup>	\$26.96 <sup>(2)</sup>

(1) Share units issued under the Nortel Networks Corporation Directors' Deferred Share Compensation Plan/Nortel Networks Limited Directors' Deferred Share Compensation Plan (the "NNCDDSCP/NNLDDSCP"). Pursuant to the NNCDDSCP/NNLDDSCP, upon election of the director, certain fees payable to NNC and NNL directors are paid in the form of NNC/NNL share units, based upon the market price of NNC common shares at the time such NNC/NNL share units are credited to the director's account under the NNCDDSCP/NNLDDSCP. On the earliest date when a director ceases to be both (i) a member of the boards of directors of NNC and NNL and (ii) employed by NNC and/or NNL or its subsidiaries, NNC and/or NNL will cause to be purchased on the open market, for delivery to the director, a number of our common shares equal to the number of NNC/NNL share units credited to the director's account under the NNCDDSCP/NNLDDSCP.

(2) Represents our common share price of \$31.42 Cdn. as converted into U.S. dollars using the noon rate of exchange of the Bank of Canada on the grant date.

## ITEM 6. Selected Financial Data (Unaudited)

The selected financial data presented below was derived from our audited consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K except for the summarized balance sheet data as of December 31, 2004, 2003 and 2002 and summarized results of operations data for the years ended December 31, 2003 and 2002. Readers should note the following information regarding the selected financial data presented below.

As more fully described in note 4 of the audited consolidated financial statements, we have restated our previously reported consolidated financial statements for our fiscal years 2005 and 2004 and the quarters ended March 31, June 30 and September 30, 2006 and 2005. The selected data below includes all such restatement adjustments. The audited restated consolidated balance sheet as of December 31, 2005 and audited restated consolidated statements of operations, statements of changes in equity and comprehensive income (loss) and statements of cash flows for our 2005 and 2004 fiscal years ended December 31, are included elsewhere in this Annual Report on Form 10-K. We have not issued restated financial statements for our 2003 and 2002 fiscal years or a restated consolidated balance sheet as of December 31, 2004, 2003 or 2002, but selected unaudited information about the restatement adjustments for those periods is presented below. We have also recorded entries relating to periods prior to 2002 which resulted in a cumulative reduction in accumulated deficit as of January 1, 2002 of \$18. This adjustment is comprised mainly of a \$28 reduction in cumulative pension and post-retirement benefit expense which is discussed in more detail in note 4.

	<u>2006</u>	<u>2005</u> As restated*	<u>2004</u> As restated*	<u>2003</u> As restated	<u>2002</u> As restated
	(Millions of U.S. dollars, except per share amounts)				
<b>Results of Operations</b>					
Total revenues . . . . .	\$11,418	\$10,509	\$ 9,478	\$ 9,907	\$10,736
Research and development expense . . . . .	1,939	1,874	1,975	1,972	2,085
Special charges					
Goodwill impairment . . . . .	—	—	—	—	595
Other special charges . . . . .	105	169	181	289	1,502
Shareholder litigation settlement expense (recovery) . . . . .	(219)	2,474	—	—	—
Operating earnings (loss) . . . . .	269	(2,732)	(298)	(163)	(3,145)
Other income (expense) — net . . . . .	212	295	217	485	(6)
Income tax benefit (expense) . . . . .	(60)	81	20	73	469
Net earnings (loss) from continuing operations . . . . .	19	(2,611)	(296)	105	(2,961)
Net earnings (loss) from discontinued operations — net of tax . . . . .	—	1	49	183	(103)
Cumulative effect of accounting changes — net of tax . . .	9	—	—	(12)	—
Net earnings (loss) . . . . .	<u>28</u>	<u>(2,610)</u>	<u>(247)</u>	<u>276</u>	<u>(3,064)</u>
Basic earnings (loss) per common share					
— from continuing operations . . . . .	\$ 0.06	\$ (6.02)	\$ (0.68)	\$ 0.22	\$ (7.73)
— from discontinued operations . . . . .	<u>0.00</u>	<u>0.00</u>	<u>0.11</u>	<u>0.42</u>	<u>(0.27)</u>
Basic earnings (loss) per common share . . . . .	<u>\$ 0.06</u>	<u>\$ (6.02)</u>	<u>\$ (0.57)</u>	<u>\$ 0.64</u>	<u>\$ (8.00)</u>
Diluted earnings (loss) per common share					
— from continuing operations . . . . .	\$ 0.06	\$ (6.02)	\$ (0.68)	\$ 0.22	\$ (7.73)
— from discontinued operations . . . . .	<u>0.00</u>	<u>0.00</u>	<u>0.11</u>	<u>0.42</u>	<u>(0.27)</u>
Diluted earnings (loss) per common share . . . . .	<u>\$ 0.06</u>	<u>\$ (6.02)</u>	<u>\$ (0.57)</u>	<u>\$ 0.64</u>	<u>\$ (8.00)</u>
<b>Financial Position as of December 31</b>					
Total assets . . . . .	\$18,979	\$18,135	\$17,716	\$17,189	\$17,395
Total debt <sup>(a)</sup> . . . . .	4,500	3,896	3,891	4,017	4,225
Minority interests in subsidiary companies . . . . .	779	783	624	613	631
Total shareholders' equity . . . . .	1,121	763	3,612	3,651	2,948

(a) Total debt includes long-term debt, long-term debt due within one year and notes payable.

See notes 3, 7, 10, 16 and 21 to the accompanying audited consolidated financial statements for the impact of accounting changes, special charges, acquisitions, divestitures and closures, capital stock and the shareholder litigation settlement expense related to the proposed class action litigation settlement, respectively, that affect the comparability of the above selected financial data.

\* See note 4 to the accompanying consolidated financial statements.

The following information presents the financial impact of the restatement adjustments on our previously reported consolidated statement of operations data for the years ended December 31, 2003 and 2002:

**Consolidated Statement of Operations data for the year ended December 31, 2003**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
	(Millions of U.S. dollars, except per share amounts)		
Revenues . . . . .	\$9,932	\$ (25)	\$9,907
Cost of revenues . . . . .	<u>5,723</u>	<u>2</u>	<u>5,725</u>
Gross profit . . . . .	<u>\$4,209</u>	<u>\$ (27)</u>	<u>\$4,182</u>
Net earnings (loss) from continuing operations . . . . .	\$ 122	\$ (17)	\$ 105
Net earnings (loss) . . . . .	<u>\$ 293</u>	<u>\$ (17)</u>	<u>\$ 276</u>
Basic and diluted earnings (loss) per common share			
— from continuing operations . . . . .	\$ 0.26	\$(0.04)	\$ 0.22
— from discontinued operations . . . . .	<u>0.42</u>	<u>0.00</u>	<u>0.42</u>
<u>Basic and diluted earnings (loss) per common share . . . . .</u>	<u>\$ 0.68</u>	<u>\$(0.04)</u>	<u>\$ 0.64</u>

**Consolidated Statement of Operations data for the year ended December 31, 2002**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
	(Millions of U.S. dollars, except per share amounts)		
Revenues . . . . .	\$10,738	\$ (2)	\$10,736
Cost of revenues . . . . .	<u>6,886</u>	<u>2</u>	<u>6,888</u>
Gross profit . . . . .	<u>\$ 3,852</u>	<u>\$ (4)</u>	<u>\$ 3,848</u>
Net earnings (loss) from continuing operations . . . . .	\$ (2,958)	\$ (3)	\$ (2,961)
Net earnings (loss) . . . . .	<u>\$ (3,061)</u>	<u>\$ (3)</u>	<u>\$ (3,064)</u>
Basic and diluted earnings (loss) per common share			
— from continuing operations . . . . .	\$ (7.72)	\$(0.01)	\$ (7.73)
— from discontinued operations . . . . .	<u>(0.27)</u>	<u>0.00</u>	<u>(0.27)</u>
<u>Basic and diluted earnings (loss) per common share . . . . .</u>	<u>\$ (7.99)</u>	<u>\$(0.01)</u>	<u>\$ (8.00)</u>

**Restatement adjustments**

The following table summarizes the restatement adjustments (refer to note 4 of the accompanying consolidated financial statements for a description of the nature of the adjustments):

	<u>Revenues</u>		<u>Cost of revenues</u>		<u>Net earnings (loss)</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>As previously reported . . . . .</b>	\$9,932	\$10,738	\$5,723	\$6,886	\$293	\$(3,061)
<b>Adjustments:</b>						
Pension and post-retirement errors . . . . .	—	—	6	3	(16)	(10)
Revenue recognition errors . . . . .	(25)	(2)	(4)	(1)	(20)	(1)
Other errors . . . . .	—	—	—	—	19	8
<b>As restated . . . . .</b>	<u>\$9,907</u>	<u>\$10,736</u>	<u>\$5,725</u>	<u>\$6,888</u>	<u>\$276</u>	<u>\$(3,064)</u>