

## ITEM 6. Selected Financial Data (Unaudited)

The selected financial data presented below was derived from Nortel Networks Corporation's ("Nortel") 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, 2003, 2002 and 2001 and summarized results of operations data for the years ended December 31, 2002 and 2001. 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, Nortel has restated its consolidated financial statements (the "Third Restatement").

Nortel has restated its previously reported consolidated financial statements for the fiscal years 2004 and 2003 and the quarters ended March 31, June 30 and September 30, 2005 and 2004. The selected data below includes all such restatement adjustments and covers the years ended December 31, 2005, 2004, 2003, 2002 and 2001. The audited restated consolidated balance sheet as of December 31, 2004 and audited restated consolidated statements of operations, statements of changes in equity and comprehensive income (loss) and statements of cash flows for the 2004 and 2003 fiscal years ended December 31, are included elsewhere in this Annual Report on Form 10-K. Nortel has not issued restated financial statements for the 2002 and 2001 fiscal years or a restated consolidated balance sheet as of December 31, 2003 but selected unaudited information about the Third Restatement adjustments for those periods is presented below. The impact to periods prior to 2001 was de minimus.

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
		As restated*	As restated*	As restated	As restated
	(Millions of U.S. dollars, except per share amounts)				
<b>Results of Operations</b>					
Revenues .....	\$10,523	\$ 9,516	\$9,932	\$10,738	\$ 18,833
Research and development expense .....	1,856	1,960	1,968	2,084	3,117
Special charges					
Goodwill impairment .....	—	—	—	595	11,426
Other special charges .....	170	181	288	1,500	3,397
Shareholder litigation settlement expense .....	2,474	—	—	—	—
Operating earnings (loss) .....	(2,671)	(250)	(126)	(3,133)	(25,039)
Other income (expense) — net .....	303	212	466	(6)	(488)
Income tax benefit (expense) .....	56	30	83	465	2,752
Net earnings (loss) from continuing operations .....	(2,576)	(256)	122	(2,958)	(23,270)
Net earnings (loss) from discontinued operations — net of tax .....	1	49	183	(103)	(2,465)
Cumulative effect of accounting changes — net of tax ..	—	—	(12)	—	15
Net earnings (loss) .....	<u>(2,575)</u>	<u>(207)</u>	<u>293</u>	<u>(3,061)</u>	<u>(25,720)</u>
Basic earnings (loss) per common share					
— from continuing operations .....	\$ (0.59)	\$ (0.06)	\$ 0.03	\$ (0.77)	\$ (7.30)
— from discontinued operations .....	0.00	0.01	0.04	(0.03)	(0.78)
Basic earnings (loss) per common share .....	<u>\$ (0.59)</u>	<u>\$ (0.05)</u>	<u>\$ 0.07</u>	<u>\$ (0.80)</u>	<u>\$ (8.08)</u>
Diluted earnings (loss) per common share					
— from continuing operations .....	\$ (0.59)	\$ (0.06)	\$ 0.03	\$ (0.77)	\$ (7.30)
— from discontinued operations .....	0.00	0.01	0.04	(0.03)	(0.78)
Diluted earnings (loss) per common share .....	<u>\$ (0.59)</u>	<u>\$ (0.05)</u>	<u>\$ 0.07</u>	<u>\$ (0.80)</u>	<u>\$ (8.08)</u>
Dividends declared per common share .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 0.0375</u>

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
		As restated*	As restated	As restated	As restated
	(Millions of U.S. dollars)				
<b>Financial Position as of December 31</b>					
Total assets .....	\$18,112	\$17,775	\$17,189	\$17,330	\$22,126
Total debt <sup>(a)</sup> .....	3,896	3,891	4,017	4,225	5,079
Minority interests in subsidiary companies .....	780	626	613	631	654
Total shareholders' equity .....	786	3,640	3,719	2,974	4,791

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

See notes 3, 7, 10, 22 and 23 to the accompanying audited consolidated financial statements for the impact of accounting changes, special charges, acquisitions, divestitures and closures 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 Third Restatement adjustments on Nortel's previously reported Consolidated Statement of Operations data for the years ended December 31, 2002 and 2001:

**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 .....	\$11,008	\$ (270)	\$10,738
Cost of revenues .....	<u>7,103</u>	<u>(217)</u>	<u>6,886</u>
Gross profit .....	<u>\$ 3,905</u>	<u>\$ (53)</u>	<u>\$ 3,852</u>
Net earnings (loss) from continuing operations .....	(2,893)	(65)	(2,958)
Net earnings (loss) .....	<u>(2,994)</u>	<u>(67)</u>	<u>(3,061)</u>
Basic and diluted earnings (loss) per common share			
— from continuing operations .....	\$ (0.75)	\$(0.02)	\$ (0.77)
— from discontinued operations .....	<u>(0.03)</u>	<u>0.00</u>	<u>(0.03)</u>
Basic and diluted earnings (loss) per common share .....	<u>\$ (0.78)</u>	<u>\$(0.02)</u>	<u>\$ (0.80)</u>

**Consolidated Statement of Operations data for the year ended December 31, 2001**

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
	(Millions of U.S. dollars, except per share amounts)		
Revenues .....	\$ 18,900	\$(67)	\$ 18,833
Cost of revenues .....	<u>14,612</u>	<u>(63)</u>	<u>14,549</u>
Gross profit .....	<u>\$ 4,288</u>	<u>\$ (4)</u>	<u>\$ 4,284</u>
Net earnings (loss) from continuing operations .....	(23,270)	—	(23,270)
Net earnings (loss) .....	<u>(25,722)</u>	<u>2</u>	<u>(25,720)</u>
Basic and diluted earnings (loss) per common share			
— from continuing operations .....	\$ (7.30)	0.00	\$ (7.30)
— from discontinued operations .....	<u>(0.78)</u>	<u>0.00</u>	<u>(0.78)</u>
Basic and diluted earnings (loss) per common share .....	<u>\$ (8.08)</u>	<u>0.00</u>	<u>\$ (8.08)</u>

**Revenues and cost of revenues adjustments**

The following table summarizes the revenue recognition adjustments to revenue and cost of revenues (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>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(Millions of U.S. dollars)			
<b>As previously reported:</b> .....	\$11,008	\$18,900	\$7,103	\$14,612
<b>Adjustments:</b>				
Application of SOP 81-1 .....	\$ (157)	\$ (44)	\$ (148)	\$ (42)
Application of SAB 104 and SOP 97-2 .....	(111)	(34)	(66)	(24)
Other revenue recognition adjustments .....	<u>(2)</u>	<u>11</u>	<u>(3)</u>	<u>3</u>
<b>As restated:</b> .....	<u>\$10,738</u>	<u>\$18,833</u>	<u>\$6,886</u>	<u>\$14,549</u>