

NORTEL NETWORKS CORPORATION
Consolidated Statements of Operations (unaudited)

<i>(US GAAP; millions of U.S. dollars, except per share amounts)</i>	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
		As restated		As restated
Revenues	\$ 2,179	\$ 2,344	\$ 7,213	\$ 6,927
Cost of revenues	1,393	1,214	4,319	4,020
Gross profit	786	1,130	2,894	2,907
Selling, general and administrative expense	512	527	1,596	1,458
Research and development expense	501	455	1,465	1,440
Amortization of acquired technology and other	2	32	7	98
Deferred stock option compensation	-	1	-	16
Special charges	93	80	99	198
(Gain) loss on sale of businesses and assets	(39)	(17)	(114)	(6)
Operating earnings (loss)	(283)	52	(159)	(297)
Other income (expense) - net	44	148	112	302
Interest expense				
Long-term debt	(45)	(45)	(132)	(136)
Other	(3)	(8)	(18)	(22)
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net loss of associated companies	(287)	147	(197)	(153)
Income tax benefit (expense)	30	(36)	32	4
Minority interests - net of tax	(7)	(10)	(29)	(52)
Equity in net loss of associated companies - net of tax	-	(13)	(2)	(38)
Net earnings (loss) from continuing operations	(264)	88	(196)	(239)
Net earnings (loss) from discontinued operations - net of tax	5	43	12	157
Net earnings (loss) before cumulative effect of accounting change	(259)	131	(184)	(82)
Cumulative effect of accounting change - net of tax	-	-	-	(12)
Net earnings (loss)	\$ (259)	\$ 131	\$ (184)	\$ (94)
Basic earnings (loss) per common share				
- from continuing operations	\$ (0.06)	\$ 0.02	\$ (0.04)	\$ (0.06)
- from discontinued operations	0.00	0.01	0.00	0.04
Basic earnings (loss) per common share	\$ (0.06)	\$ 0.03	\$ (0.04)	\$ (0.02)
Diluted earnings (loss) per common share				
- from continuing operations	\$ (0.06)	\$ 0.02	\$ (0.04)	\$ (0.06)
- from discontinued operations	0.00	0.01	0.00	0.04
Diluted earnings (loss) per common share	\$ (0.06)	\$ 0.03	\$ (0.04)	\$ (0.02)

Please refer to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 including the Notes to the Consolidated Financial Statements (unaudited) and Management's Discussion and Analysis of Financial Condition and Results of Operations.