

NORTEL NETWORKS CORPORATION
Consolidated Statements of Operations

<i>(US GAAP; millions of U.S. dollars, except per share amounts)</i>	<u>Three months ended December 31,</u>		<u>Year ended December 31,</u>	
	2004	2003	2004	2003
Revenues	\$ 2,615	\$ 3,266	\$ 9,828	\$ 10,193
Cost of revenues	1,431	1,832	5,750	5,852
Gross profit	1,184	1,434	4,078	4,341
Selling, general and administrative expense	542	481	2,138	1,939
Research and development expense	494	520	1,959	1,960
Amortization of acquired technology and other	3	3	10	101
Deferred stock option compensation	-	-	-	16
Special charges	81	86	180	284
(Gain) loss on sale of businesses and assets	16	2	(98)	(4)
Operating earnings (loss)	48	342	(111)	45
Other income (expense) - net	119	143	231	445
Interest expense				
Long-term debt	(61)	(45)	(193)	(181)
Other	8	(6)	(10)	(28)
Earnings (loss) from continuing operations before income taxes, minority interests and equity in net loss of associated companies	114	434	(83)	281
Income tax benefit (expense)	(3)	76	29	80
Minority interests - net of tax	111	510	(54)	361
Equity in net loss of associated companies - net of tax	(17)	(11)	(46)	(63)
Net earnings (loss) from continuing operations	2	2	-	(36)
Net earnings (loss) from discontinued operations - net of tax	96	501	(100)	262
Net earnings (loss) before cumulative effect of accounting change	37	27	49	184
of accounting change	133	528	(51)	446
Cumulative effect of accounting change - net of tax	-	-	-	(12)
Net earnings (loss)	\$ 133	\$ 528	\$ (51)	\$ 434
Average shares outstanding ('000s) - Basic	4,337,513	4,330,364	4,336,782	4,329,754
Average shares outstanding ('000s) - Diluted	4,342,503	4,343,837	4,336,782	4,331,585
Basic earnings (loss) per common share				
- from continuing operations	\$ 0.02	\$ 0.11	\$ (0.02)	\$ 0.06
- from discontinued operations	0.01	0.01	0.01	0.04
Basic earnings (loss) per common share	\$ 0.03	\$ 0.12	\$ (0.01)	\$ 0.10
Diluted earnings (loss) per common share				
- from continuing operations	\$ 0.02	\$ 0.11	\$ (0.02)	\$ 0.06
- from discontinued operations	0.01	0.01	0.01	0.04
Diluted earnings (loss) per common share	\$ 0.03	\$ 0.12	\$ (0.01)	\$ 0.10

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2004 including the Notes to the Consolidated Financial Statements