

**NORTEL NETWORKS CORPORATION**  
**Consolidated Results (unaudited)**  
(millions of U.S. dollars, except per share amounts)

	For the three months ended 12/31/02 <sup>(1)</sup>			For the three months ended 12/31/01		
	U.S. GAAP Reported	Pro forma Adjustments	A Pro forma	U.S. GAAP Reported	Pro forma Adjustments	B Pro forma
Revenues .....	\$ 2,520	\$ -	\$ 2,520	\$ 3,456	\$ -	\$ 3,456
Cost of revenues .....	1,530	-	1,530	2,417	-	2,417
Gross profit .....	990	-	990	1,039	-	1,039
Selling, general and administrative expense .....	482	-	482	1,009	-	1,009
Research and development expense .....	491	-	491	563	-	563
Amortization of intangibles						
Acquired technology .....	35	(35)	-	63	(63)	-
Goodwill <sup>(2)</sup> .....	-	-	-	463	(446)	17
Stock option compensation from acquisitions and divestitures .....	23	(23)	-	18	(18)	-
Special charges						
Goodwill impairment .....	-	-	-	42	(42)	-
Other special charges .....	214	(214)	-	790	(790)	-
(Gain) loss on sale of businesses .....	(26)	26	-	157	(157)	-
Operating earnings (loss) .....	(229)	246	17	(2,066)	1,516	(550)
Equity in net earnings of associated companies .....	10	-	10	4	-	4
Other income (expense) – net .....	26	(60)	(34)	(83)	-	(83)
Interest expense						
Long-term debt .....	(47)	-	(47)	(58)	-	(58)
Other .....	(8)	-	(8)	(33)	-	(33)
Loss from continuing operations before income taxes .....	(248)	186	(62)	(2,236)	1,516	(720)
Income tax benefit (provision) .....	-	-	-	410	(196)	214
Net loss from continuing operations .....	(248)	186	(62)	(1,826)	1,320	(506)
Net loss from discontinued operations (net of tax) .....	-	-	-	-	-	-
Net loss .....	<u>\$ (248)</u>	<u>\$ 186</u>	<u>\$ (62)</u>	<u>\$ (1,826)</u>	<u>\$ 1,320</u>	<u>\$ (506)</u>
Basic and diluted loss per common share <sup>(3)</sup>						
From continuing operations .....	\$ (0.06)		\$ (0.01)	\$ (0.57)		\$ (0.16)
From discontinued operations .....	-		N/A	-		N/A
	<u>\$ (0.06)</u>		<u>\$ (0.01)</u>	<u>\$ (0.57)</u>		<u>\$ (0.16)</u>
Pro forma effective tax rate .....	N/A		N/A	N/A		30.0%
Weighted average number of common shares (millions)						
- basic <sup>(4)</sup> .....	4,335		4,335	3,211		3,211
- diluted <sup>(3)</sup> .....	4,335		4,335	3,211		3,211

<sup>(1)</sup> These unaudited consolidated results for the three months ended December 31, 2002 are preliminary and are subject to change. Nortel Networks disclaims any intention or obligation to update or revise these preliminary results prior to the filing of its reported results for the year ended December 31, 2002. See footnote (a) in the attached press release.

<sup>(2)</sup> Effective January 1, 2002, Nortel Networks adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. Thus, the amortization of goodwill, including goodwill recorded in past business combinations, and the amortization of intangibles with an indefinite life ceased upon adoption of SFAS 142. The impact of the SFAS 142 requirement to cease amortization would be to reduce the reported net loss by \$463 and the reported basic and diluted loss per common share by 15 cents per common share for the three months ended December 31, 2001 had SFAS 142 been in effect beginning January 1, 2001.

<sup>(3)</sup> As a result of the reported and pro forma net losses for the three months ended December 31, 2002 and 2001, approximately 205 and 190, respectively, of potentially dilutive securities (in millions) have not been included in the calculation of diluted loss per common share for the periods presented because to do so would have been anti-dilutive.

<sup>(4)</sup> The basic weighted average number of common shares includes the minimum number of common shares to be issued upon settlement of the prepaid forward purchase contracts issued on June 12, 2002. The minimum number of common shares to be issued is 485 million.

**A** - Excludes a total of \$186 after-tax comprised of: the amortization of intangibles from all acquisitions subsequent to July 1998 of \$35; stock option compensation from acquisitions and divestitures of \$23; special charges of \$214; gain on sale of business of \$26; gain from repurchases of outstanding debt securities of \$60. These items include an income tax benefit of \$62 reduced by an income tax valuation allowance of \$62.

**B** - Excludes a total of \$1,516 pre-tax (\$1,320 after-tax), the amortization of intangibles from all acquisitions subsequent to July 1998, stock option compensation from acquisitions and divestitures, special charges, and loss on sale of businesses.

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	For the year ended 12/31/02 <sup>(1)</sup>			For the year ended 12/31/01		
	U.S. GAAP	Pro forma	A	U.S. GAAP	Pro forma	B
	Reported	Adjustments	Pro forma	Reported	Adjustments	Pro forma
Revenues .....	\$ 10,560	\$ -	\$ 10,560	\$ 17,511	\$ -	\$ 17,511
Cost of revenues .....	6,953	-	6,953	14,167	-	14,167
Gross profit .....	3,607	-	3,607	3,344	-	3,344
Selling, general and administrative expense .....	2,675	-	2,675	5,911	-	5,911
Research and development expense .....	2,230	-	2,230	3,224	-	3,224
In-process research and development expense.....	-	-	-	15	(15)	-
Amortization of intangibles						
Acquired technology .....	157	(157)	-	807	(807)	-
Goodwill <sup>(2)</sup> .....	-	-	-	4,148	(4,106)	42
Stock option compensation from acquisitions and divestitures .....	91	(91)	-	109	(109)	-
Special charges						
Goodwill impairment .....	595	(595)	-	12,121	(12,121)	-
Other special charges.....	1,703	(1,703)	-	3,660	(3,660)	-
(Gain) loss on sale of businesses .....	(40)	40	-	112	(112)	-
Operating loss .....	(3,804)	2,506	(1,298)	(26,763)	20,930	(5,833)
Equity in net loss of associated companies .....	(9)	-	(9)	(134)	119	(15)
Other income (expense) – net .....	6	(60)	(54)	(351)	-	(351)
Interest expense						
Long-term debt .....	(215)	-	(215)	(196)	-	(196)
Other .....	(41)	-	(41)	(115)	-	(115)
Loss from continuing operations before income taxes .....	(4,063)	2,446	(1,617)	(27,559)	21,049	(6,510)
Income tax benefit (provision).....	478	(129)	349	3,252	(1,254)	1,998
Net loss from continuing operations .....	(3,585)	2,317	(1,268)	(24,307)	19,795	(4,512)
Net loss from discontinued operations (net of tax) <sup>(3)</sup> .....	-	-	-	(3,010)	3,010	-
Net loss before cumulative effect of accounting change .....	(3,585)	2,317	(1,268)	(27,317)	22,805	(4,512)
Cumulative effect of accounting change (net of tax of \$9) .....	-	-	-	15	(15)	-
Net loss .....	<u>\$ (3,585)</u>	<u>\$ 2,317</u>	<u>\$ (1,268)</u>	<u>\$ (27,302)</u>	<u>\$ 22,790</u>	<u>\$ (4,512)</u>
Basic and diluted loss per common share <sup>(4)</sup>						
From continuing operations .....	\$ (0.93)		\$ (0.33)	\$ (7.62)		\$ (1.41)
From discontinued operations .....	-		N/A	(0.94)		N/A
	<u>\$ (0.93)</u>		<u>\$ (0.33)</u>	<u>\$ (8.56)</u>		<u>\$ (1.41)</u>
Dividends declared per common share .....	-		-	\$ 0.03750		\$ 0.03750
Pro forma effective tax rate .....	N/A		N/A	N/A		31.0%
Weighted average number of common shares (millions)						
- basic <sup>(5)</sup> .....	3,838		3,838	3,189		3,189
- diluted <sup>(4)</sup> .....	3,838		3,838	3,189		3,189

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(2) Effective January 1, 2002, Nortel Networks adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. Thus, the amortization of goodwill, including goodwill recorded in past business combinations, and the amortization of intangibles with an indefinite life ceased upon adoption of SFAS 142. The impact of the SFAS 142 requirement to cease amortization would be to reduce the reported net loss by \$4,347 and the reported basic and diluted loss per common share by \$1.36 per common share for the year ended December 31, 2001 had SFAS 142 been in effect beginning January 1, 2001.

(3) Reported results for the year ended December 31, 2001 is net of an applicable income tax recovery of \$723.

(4) As a result of the reported and pro forma net losses for the year ended December 31, 2002 and 2001, approximately 195 and 98, respectively, of potentially dilutive securities (in millions) have not been included in the calculation of diluted loss per common share for the periods presented because to do so would have been anti-dilutive.

(5) The basic weighted average number of common shares includes the minimum number of common shares to be issued upon settlement of the prepaid forward purchase contracts issued on June 12, 2002. The minimum number of common shares to be issued is 270 million on a weighted basis for the year ended December 31, 2002.

A - Excludes a total of \$2,446 pre-tax (\$2,317 after-tax) comprised of: the amortization of intangibles from all acquisitions subsequent to July 1998 of \$157 pre-tax (\$125 after-tax); stock option compensation from acquisitions and divestitures of \$91; special charges of \$2,298 pre-tax (\$2,064 after-tax); gain on sale of businesses of \$40 pre-tax (\$28 after-tax); gain from repurchases of outstanding debt securities of \$60. In addition, these items include an income tax benefit of \$259 reduced by an income tax valuation allowance of \$259, and certain additional tax valuation allowances of \$125.

B - Excludes a total of \$24,578 pre-tax (\$22,790 after-tax) for Acquisition Related Costs (in-process research and development expense and the amortization of intangibles from all acquisitions subsequent to July 1998), stock option compensation from acquisitions and divestitures, special charges, loss on sale of businesses, equity in net loss of associated companies related to Acquisition Related Costs, discontinued operations, and the cumulative effect of accounting change.