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President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Materials
Speeches - Breakfast Meeting - Nortels Board of Directors - February 27, 1997

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WBG Archives

Breakfast Meeting: Nortel's Board of Directors
(JDW remarks)

Thursday, February 27, 1997
7:00 - 8:15 a.m.
Willard Hotel
(William O. Douglas Room)

Archive Management for the President's Office

Document Log

Reference # : Archive-01197

1288

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Print

A. CLASSIFICATION

☒	Meeting Material
☐	Trips
☒	Speeches

☐	Annual Meetings
☐	Corporate Management
☐	Communications with Staff

☐	Phone Logs
☐	Calendar
☐	Press Clippings/Photos

☐	JDW Transcripts
☐	Social Events
☐	Other

B. SUBJECT: BREAKFAST MEETING: NORTEL'S BOARD OF DIRECTORS // JDW TO SPEAK // (B)

VENUE: THE WILLIAM O. DOUGLAS ROOM, WILLARD HOTEL
PROGRAM:

7:00 A.M.: BREAKFAST

7:25 A.M.: JDW TO SPEAK FOR 20 MIN.

8:15 A.M.: END OF BREAKFAST

CONTACT: MS. MELANIE CARTER-MAGUIRE @ 508-3604 (DC OFFICE) // OR MR. SCHUENKE @ 414-299-7317

IN ATTENDANCE: JDW & CAROLINE

2/20 - JDW ADVISED THAT HE WILL ATTEND (PER CA)

2/20 - ITEM COPIED TO CAROLINE

(B) SPEAKING POINTS: CAROLINE ANSTEY

EXC: CA // ALI (2/20)

Brief included:

---Talking points

---World Bank Briefing Note prepared by C. Braga

---IFC Briefing Note

---Letter of invitation to Mr. Wolfensohn from Donald J. Schuenke, Nortel (02/03/97)

---Bios

---Press Articles

---Nortel's 1995 Annual Report

---Nortel - The Anatomy of a Transformation

DATE: 02/27/97

C. VPU

Corporate

☐	CTR
☐	EXT
☐	LEG
☐	MPS
☐	OED
☐	SEC/Board
☐	TRE

Regional

☐	AFR
☐	EAP
☐	ECA
☐	LAC
☐	MNA
☐	SAS

Central

☐	CFS
☐	DEC
☐	ESD
☐	FPD
☐	FPR
☐	HRO

Affiliates

☐	GEF
☐	ICSID
☐	IFC
☐	Inspection Panel
☐	Kennedy Center
☐	MIGA

D. EXTERNAL PARTNER

☐	IMF
☐	UN
☐	MDB/Other IO
☐	NGO
☐	Private Sector

☐	Part I
☐	Part II
☒	Other

E. COMMENTS:

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Cleared By

Caroline Anstey

Date:

03/04/97

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Northern Telecom

The Anatomy of a Transformation



NORTHERN TELECOM

FOREWORD

FOREWORD

This document is a report on the transformation of Northern Telecom and the telecommunications industry during a decade of turbulent change.

It is a synthesis of information and analyses collected from a variety of sources inside and outside the company that attempts to be comprehensive in covering the interwoven stories of industry and company change. But the environment is still changing too fast for any document to be more than a snapshot of dynamic events that are still unfolding, creating what I've been calling a "new golden age of telecom."

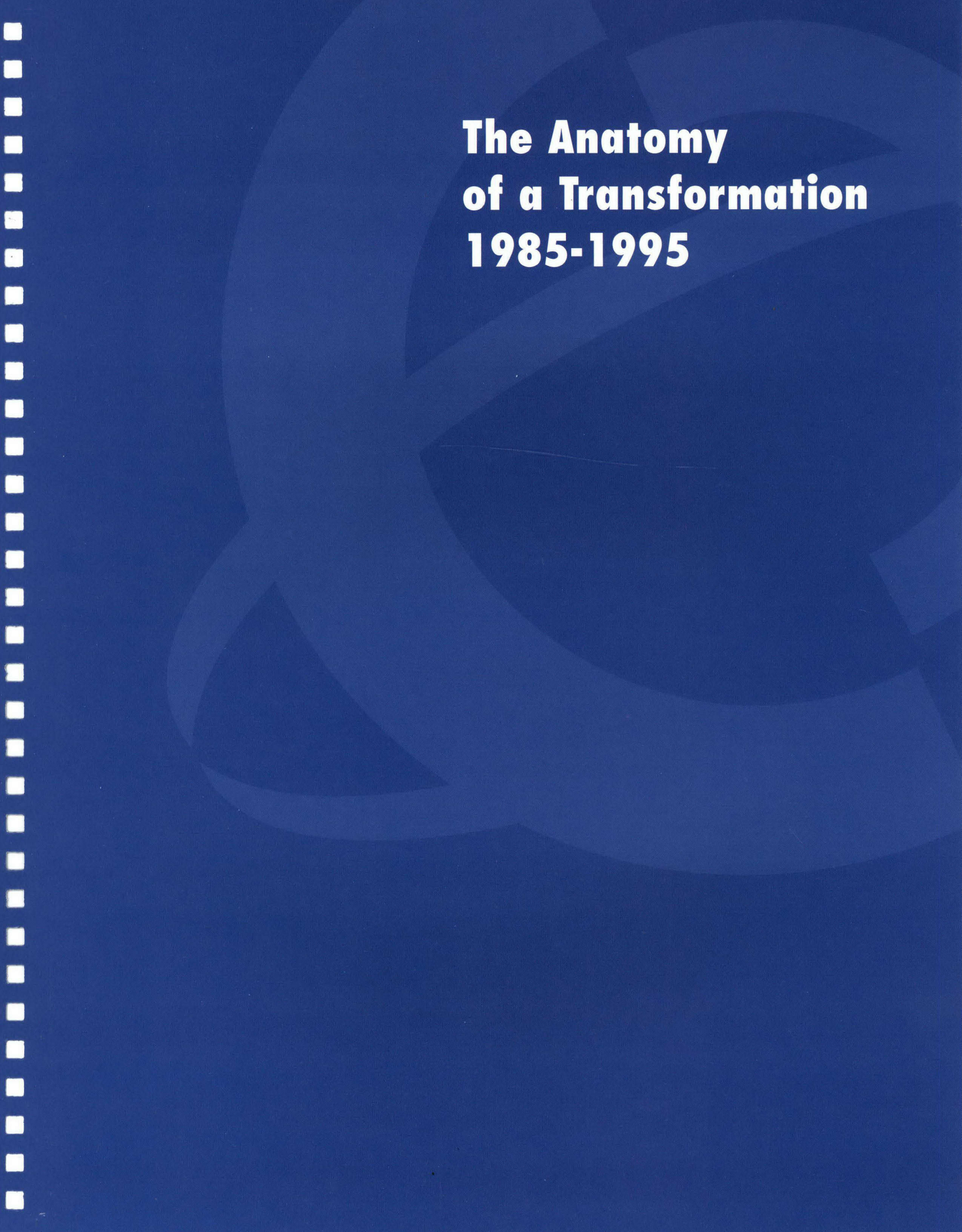
The telecom revolution continues on fast forward into an uncertain future. But some things have become clear. One is that between 1985 and 1995, Northern Telecom, a switching-oriented equipment supplier to North American telephone companies and enterprises, became Nortel, a network technology and solutions company that is the global resource for the world's network builders.

This document stands as a tribute to the vision of Northern Telecom management teams who over the past two decades invested in building a corporation that today is a recognized industry leader and is strongly positioned for a new set of opportunities.

I wish to express my appreciation to the many individuals in the company and the telecom industry who contributed time and information to the preparation of *The Anatomy of a Transformation*.



Jean C. Monty
November 1996

The background of the cover is a solid dark blue. Overlaid on this are several large, semi-transparent circles of varying shades of blue, creating a layered, geometric effect. On the left side, a vertical line of white squares, resembling a film strip or perforations, runs from the top to the bottom of the page.

The Anatomy of a Transformation 1985-1995

Corporate Profile

Nortel is the global brand for designing, building, and integrating a world of wireless, enterprise, public carrier, and broadband networks for information, education, entertainment, and commerce.

"A World of Networks" is the company's vision for creating digital networks for a wide range of public and private-sector customers worldwide.

Corporate Mission

To deliver market leadership through customer satisfaction, superior value, and product excellence.

The Spirit of Nortel

People reaching out to meet the challenge of bringing the world together through telecommunications...all in the spirit of leadership, innovation, dedication, and excellence.

THE ANATOMY OF TRANSFORMATION

THE ANATOMY OF A TRANSFORMATION

In an industry fast-forwarding into the future, it's difficult to grasp the dimensions of a transformation that over the past 10 years has given birth to a new golden age of telecom.

Between 1985 and 1995, the telecommunications industry – and Northern Telecom – experienced the sort of change of degree that, when carried far enough, produces a difference in kind.

The revolution of the past decade created an industry and a company that are unquestionably different in kind and not just degree. A new industry emerged, shaped by powerful forces for change such as deregulation, competition, new market demands, and technologies that support mobility, interactivity, and multimedia. This was a period during which digital convergence – combining communications, computing, and entertainment – became a driving force for producing new kinds of communications products and systems, new business ventures and alliances, and a new medium of communication: the Internet. Digital convergence also became a regular topic in the trade and mass media.

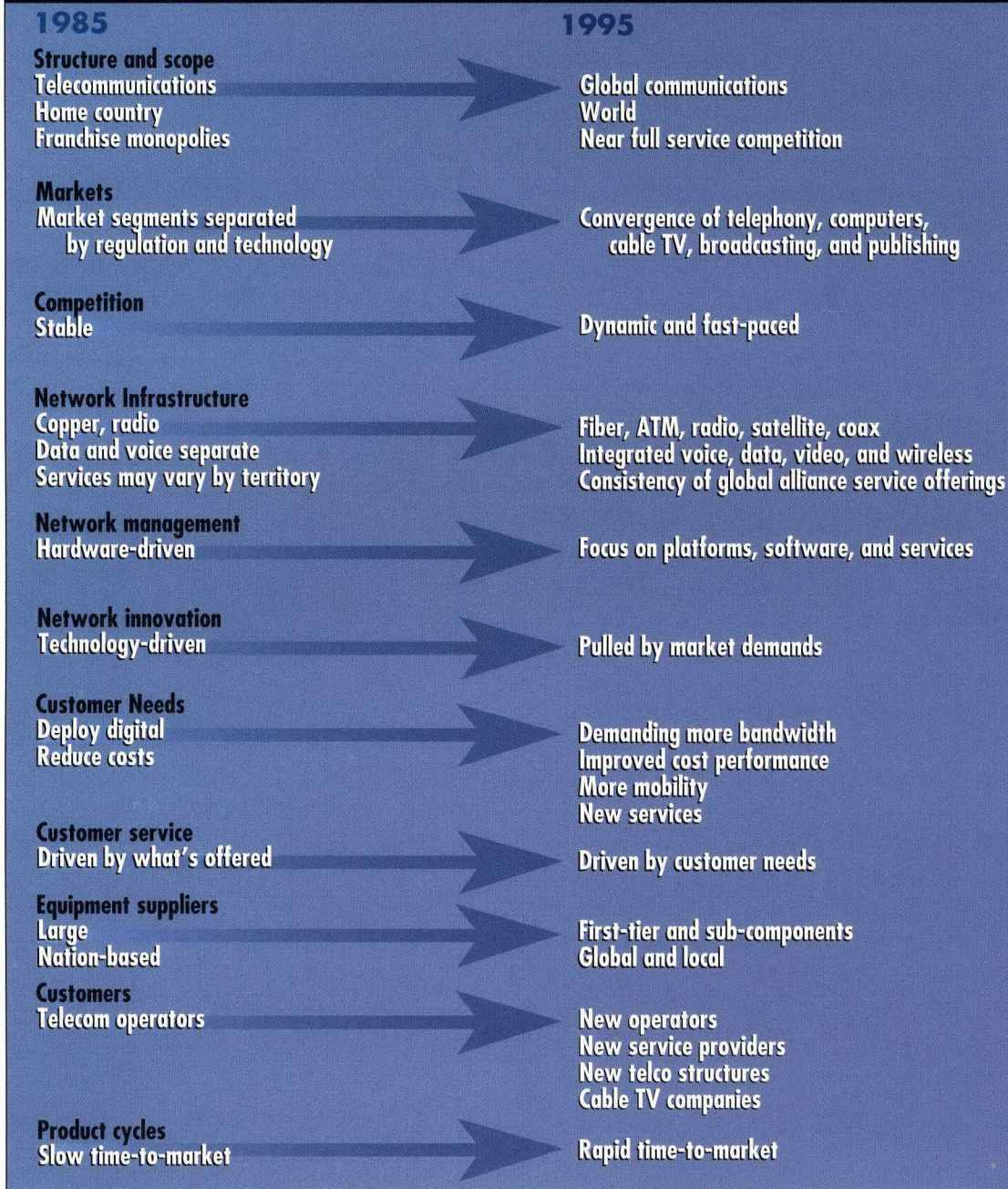
Underlying convergence were advances in computer hardware, telecom systems, and software that drove down costs while increasing capabilities. The unifying element was digital technology, which has also been at the center of the massive change in the telecom and computing industries over the past 10 years.

Visionaries and industry leaders talk about life in “the new golden age of telecom” when economist and author George Gilder says, “The most common personal computer of the next decade is going to be a digital cellular phone. It's going to be as mobile as a watch, as personal as a wallet. It will recognize speech, navigate streets. It will collect your mail, open your door, and do a great variety of functions that we can't really anticipate today. And there will be a great variety of these PDAs.”

It's evident from this vision of the future that the forms of interactive multimedia used today are only primitive precursors of what's coming in the years ahead. Digital convergence will continue to drive innovation and experimentation aimed at changing the way the world communicates.

**DIGITAL CONVERGENCE IS
CHANGING THE WAY THE
WORLD COMMUNICATES**

Industry Powershift



The relatively stable telecom market of 1985 has given way to a new market characterized by new customer demands, complex networks, and dynamic forces that are driving changes in network design.

Change is a persistent refrain echoing throughout the telecom industry. We now live in a nanosecond environment where there's little time for reflecting on the past. But as William Faulkner said, "The past is not dead, it is not even the past." With that, he acknowledged how much today owes to yesterday – or, in Nortel's case, how much the investments and innovations of the past served to prepare the company for the future.

In 1995, Northern Telecom paused briefly to celebrate its 100th anniversary, salute past achievements, and launch Nortel into its second century. The company produced a book that surveyed its "ancient" history. *The Anatomy of a Transformation* focuses on Northern Telecom's "modern" history. The aim is to provide a better understanding of how Northern Telecom has evolved since the telecom revolution gained momentum with developments like digitization, privatization, competition, and customer choice.

This revolution was many years in the making. Market structures that had evolved steadily and slowly for more than half a century began changing at an accelerating rate in the 1960s and 1970s. But it wasn't until the breakup of the Bell system in the United States in the mid-1980s that the revolution got underway in earnest.

The AT&T breakup was a precipitating event that triggered an amazing period of rapid change in the telecom industry. A decade ago, few predicted the effects that divestiture, deregulation, exponential technology growth with declining costs, and increasingly intense international competition would have on global communications.

As the industry changed, so did Northern Telecom. By 1985, it had already established a strong North American base and leadership in digital switching and PBX systems for business communications. Through strategic alliances, distributors, and licensing arrangements, it had also established an international presence, with sales of DMS switches to 21 countries and sales of Meridian business systems to markets around the world.

NORTEL MADE THE TRANSITION TO A GLOBAL CORPORATION

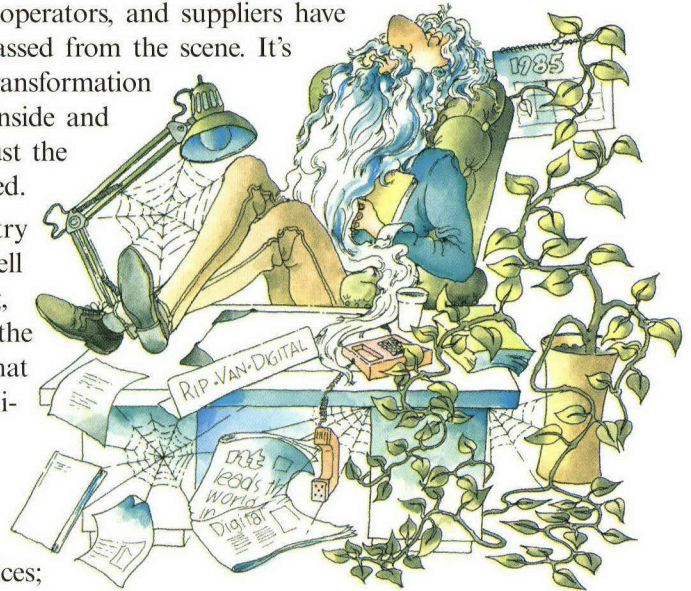
From this base, over the next 10 years Nortel made the transition to a global corporation offering a broad portfolio of network solutions to a growing and diverse group of customers. Today, Nortel is the global resource for designing, building, and integrating digital networks of all kinds – enterprise, wireless, broadband, and public carrier networks – for information, entertainment, education, and commerce.

A New World of Opportunity

Looking back, it's amazing how far the industry and Northern Telecom have come in such a short time. New technologies, network operators, and suppliers have appeared. Some long-established suppliers have passed from the scene. It's even difficult for those who have been living the transformation day-to-day to comprehend what has taken place inside and outside the company. What is astounding is not just the scope of change but the speed at which it has happened.

Suppose in the mid-1980s, a telecom-industry analyst – for fun, let's call him Rip Van Digital – fell into a deep 10-year sleep. While Rip was snoozing, perhaps dreaming about the enduring stability of the business, he would have slept through a decade that completely reshaped the landscape of telecommunications. He would have missed:

- the ending of government monopolies around the world;
- the deregulation and liberalization of services;
- the continuing globalization and intensification of competition;
- the ascendancy of the personal computer and the rise of the Internet; and
- the revolution in mobility, broadband, and online communications.



There's no denying that Rip would be waking to a very different world. He would find the rules of the communications game had changed across the board. It's now a game with a different breed of competitor on a global playing field. Big investment bets are placed on the future virtually every day. Nothing is simple. Nothing is stable. The telecom ecology is changing before our eyes, rapidly, radically, and often perplexingly.

For many, this has not proved to be a soothing state of affairs. The era of smooth sailing ended as the industry encountered a more competitive and tumultuous climate with less consistency, conformity, and orderly progression.

No longer are there absolute or even clear distinctions in the markets or among the customers of telecom-service providers, cable operators, computer companies, software developers, and entertainment conglomerates. The convergence of information-related industries is evident in the global trend of cross-investments, mergers, and alliances that include:

- phone companies owning cable systems abroad and at home and cable companies offering telephony;
- satellite TV and data networks being launched by a defense contractor, a computer manufacturer, and a media company;

- consumer electronics manufacturers buying movie and music producers;
- software companies acquiring the rights to images, data, and entertainment content; and
- marketing companies, web-page designers, and entrepreneurs creating new frontiers for electronic commerce, with virtual transactions across global online networks.

As if that wasn't enough, poor Rip would be startled by a bewildering jumble of new terminology: SONET/SDH, ATM, GSM, PCS, fixed radio access. The Internet alone has spawned an entire vocabulary – terms like net-surfing, cyber-commuting, web browsing. He would be opening his eyes to RBOC mergers, AT&T's "trivestiture," the digital wireless revolution, the new legislation that promises to open the floodgates to telecom competition in the United States, the network modernization underway in developing countries, and the prospect of deregulated telecom markets in Europe by 1998.

All this would have been difficult to imagine back in the mid-1980s when Rip began his sleep. Digital technology was still far from universal, home computers were relatively rare, and only scientists, engineers, and academics had even heard of – much less used – the Internet.

Since then, new paradigms for communications, education, and entertainment have taken shape. The emergence of digital online media, from CD-ROM artwork to virtual currencies like cyber-cash, has opened up new realms of cultural experience and economic activity to users of the average home computer. The online domains of the Internet and World Wide Web are bringing buyers and sellers together in virtual commercial regions and electronic trading centers taking shape around the globe.

Digital networks have enabled entrepreneurs and explorers on the frontiers of cyberspace to begin creating an alternative distribution system for goods and services. The online world is a new resource and a universal medium for companies to market products, provide customer service, and perform transactions in a digitized virtual space that, increasingly, has a global networked dimension.



The Age of Choice: A Major Powershift

The rising expectations of consumers and businesses for value, choice, and innovation in telecom services constituted a critical dimension of change during the decade. These expectations encouraged governments, regulatory agencies,

and industry-leading companies to provide more diversity, openness, and competition in the marketplace. Competition, in turn, spurred innovation and new opportunities for deploying network services that make business more productive on a global scale and contribute to social development.

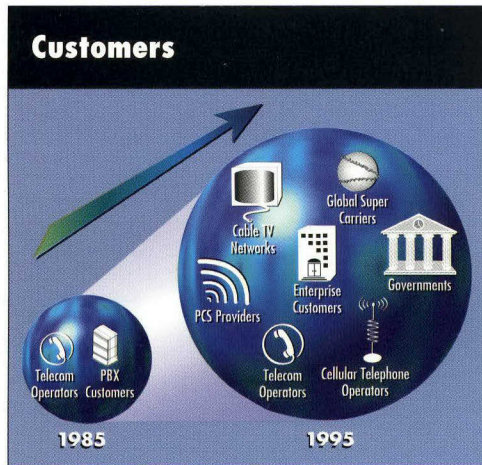
If there's one discontinuity that appeared during the decade that deserves special attention, it's the proliferation of choice among technologies and systems for network service providers and the end users of their services. The dynamics of the emerging industry have brought in new players, investment capital, and procurement alternatives for deploying new capabilities.

There has also been a major change in the relationship between suppliers and their customers. The changing cross-currents of customer demands have generated a major power shift. Thanks to a combination of deregulation and

technology, power has been flowing towards the customer. Winning and keeping customers has never been harder. Today's customers, as *Fortune* magazine puts it, are "the sharpest, most sophisticated customers that marketers have ever faced."

Nortel's customers – in all global markets and in all segments of the industry – are characterized by their demands for quality, responsiveness, and value. But Nortel established a reputation in the late 1970s and 1980s as a customer-focused company.

In those years – and in all the years since – facing tough competitors in every market segment sharpened the



Nortel now serves a more diverse set of customers, including a much wider range of traditional and new service providers.

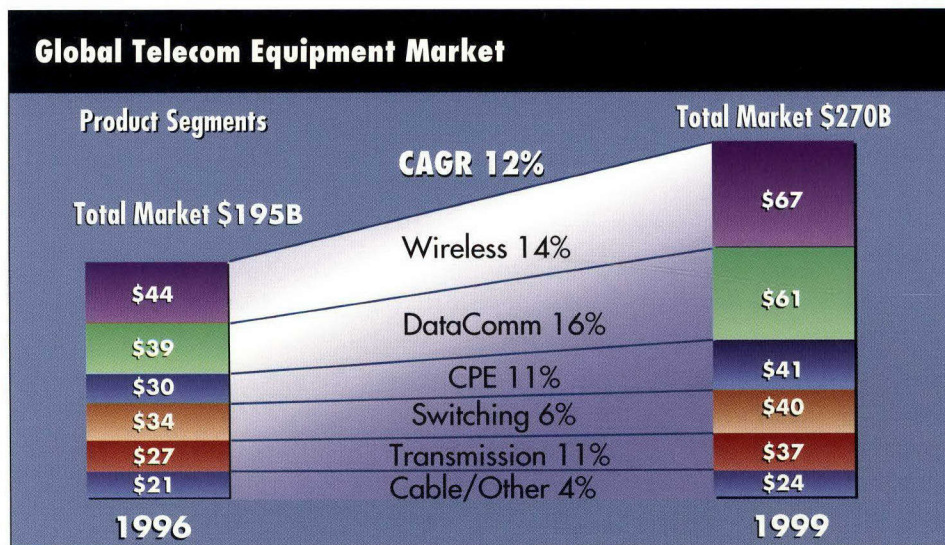
company's focus on creating value for customers and on building long-term customer relationships.

Investing in the Networked Global Economy

In today's global economy, electronic networks are at the heart of multinational enterprises. The networked global economy is forcing companies to rethink strategies, reconfigure operations, and seek new partnerships. With the globalization of markets, deregulation, acquisitions, mergers, and burgeoning size, corporate structures have become complex networks of interconnected units, systems, and services spread around the world. The multinational corporation is held together by its own world of networks. And the lifeblood that flows through these networks is information.

In the new golden age of telecom, nations and businesses are investing heavily to upgrade their info-structure, spending US\$3 billion per week by 1995.

It would surprise Rip Van Digital to see a projected \$102 billion market for enterprise networks before the turn of the century, with \$67 billion projected for wireless and mobility. Add in \$40 billion in switching, \$37 billion in transmission, and \$24 billion in cable, and the opportunities are staggering.



There are growth opportunities in all segments of the market as the new age of telecom unfolds.

These figures reflect only distinct segments within a broadly defined telecom market estimated to be worth in the range of \$750 billion in 1995 and more than \$1 trillion by the end of the decade. This market, in turn, is one component of the global information industry that is emerging in the wake of digitization and the convergence of technologies and markets.

The value of the new information industry – incorporating computing equipment and services, consumer electronics, broadcast and cable networks, and multimedia content, as well as telecommunications – has been estimated at a trillion-and-a-half dollars for 1995 and growing. Telecom equipment and services account for almost 45 percent of the total, exceeding every other component of this new industry.

Both the size of the financial opportunities and the scope of the possibilities for delivering new services to people around the world create a bright outlook for Nortel and its partners.

Carriers are seeking solutions to provide their customers with more flexibility across a broad spectrum of facilities. Not surprisingly, the market for network components and integrated solutions is experiencing dramatic growth.

Fueling this growth is a new generation of carriers, including cable-TV companies, electric utilities, railroads, construction companies, property-management

**GROWING DEMAND FOR
NETWORK SOLUTIONS**

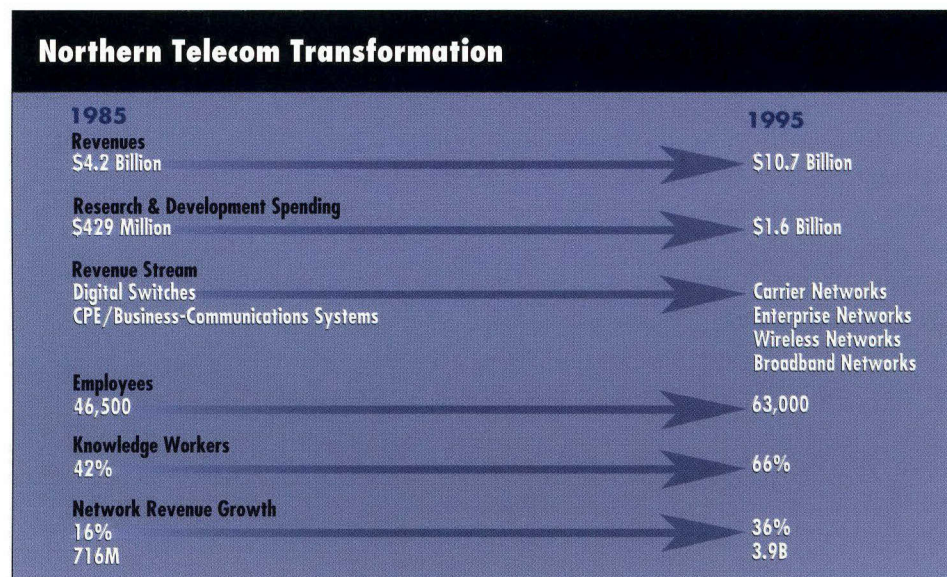
companies, software companies, satellite-equipment manufacturers, Internet service providers, industry groups such as those serving airlines and banks, and numerous resellers of communications services.

The *Wall Street Journal* sized up the new age of telecom this way, "Everybody has joined the fray – they all want to invade one another's markets and sell one another's products and services. In short, the battle for the telecommunications dollar is turning into a free-for-all. It's war!"

To compete against established competitors, new entrants focus on cost control, advanced applications, and rapid time-to-market. Some are leasing infostructure to provide ingenious new services. Others are looking to new kinds of network infrastructure, such as low-orbit satellites for worldwide communications.

The scope and pace of change have established a new mind-set among all players in the industry and is accelerating the entry of new suppliers to the marketplace for network systems and services.

An industry analyst like Rip – out of touch with the industry for a decade – would be fascinated by the changes in the well-established players he once knew. For example, he probably knew Northern Telecom as a highly regarded leader of change even before 1985, a leadership position dating back to 1976, when the company announced the world's first complete line of fully digital switching and PBX products.



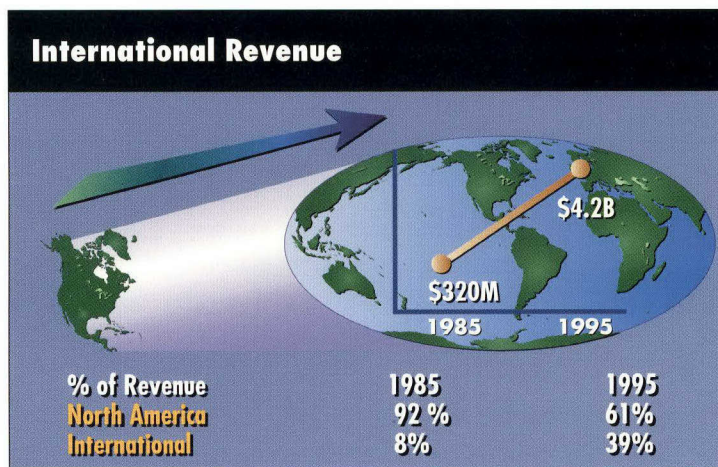
Northern Telecom has become a global corporation that has been redefined in terms of its purpose, products, and customer base.

The 10 years since 1985 saw an astonishing amount of change at the company.

- Revenues more than doubled from \$4.2 billion to more than \$10 billion.
- R&D spending almost quadrupled from \$429 million to \$1.6 billion.
- The number of employees increased from 46,500 to more than 63,000.
- One in ten employees in 1985 focused on R&D. In 1995, one in four were technology employees, the vast majority devoted to software development.
- The number of knowledge workers increased from 42 percent of the total workforce to 66 percent, rising towards a projected 75 percent by 1998. By 1995 fully 16 percent of the company's assets were in computers and workstations used by knowledge workers, representing a value of \$800 million compared to \$280 million in 1985.
- Compared to 1985, when central-office switching systems accounted for 50 percent of revenues, wireless, broadband, and enterprise networks together accounted for 55 percent in 1995.
- Sales of total networks versus network components and products increased from \$716 million in 1985 to \$3.9 billion in 1995, growing from 16 percent of global revenues to 36 percent.

More importantly, Rip would observe that Northern Telecom had become a global corporation, with nearly 40 percent of its revenues coming from markets outside North America, compared to only eight percent 10 years earlier.

It had also become a company operating at new levels of efficiency and effectiveness. Over the years, Nortel has shown itself to be a leader in meeting the challenges of renewal. Continuous change in the marketplace since the early 1980s has meant continuous renewal in the corporation. Nortel has not only changed its operating structure and renewed its customer-focused business culture, it has changed many policies and practices that no longer fit the dynamic realities of the new telecom environment.



In 1985, non-North American sales accounted for only eight percent of total revenues. By 1995, international sales represented 39 percent.

A New Vision for A New Age

In 1995, Northern Telecom took to the world stage at Telecom '95 in Geneva, and launched its second century by introducing:

- A new logo – Nortel (the short name for Northern Telecom).
- A new vision for the future of telecom called A World of Networks.
- A new position in the marketplace based on digital leadership, global reach, and breadth of portfolio.
- A renewed commitment to its central mission: creating value for the customer. Nortel's focus on creating value for the customer is one thing that remained unchanged during the decade of transformation.

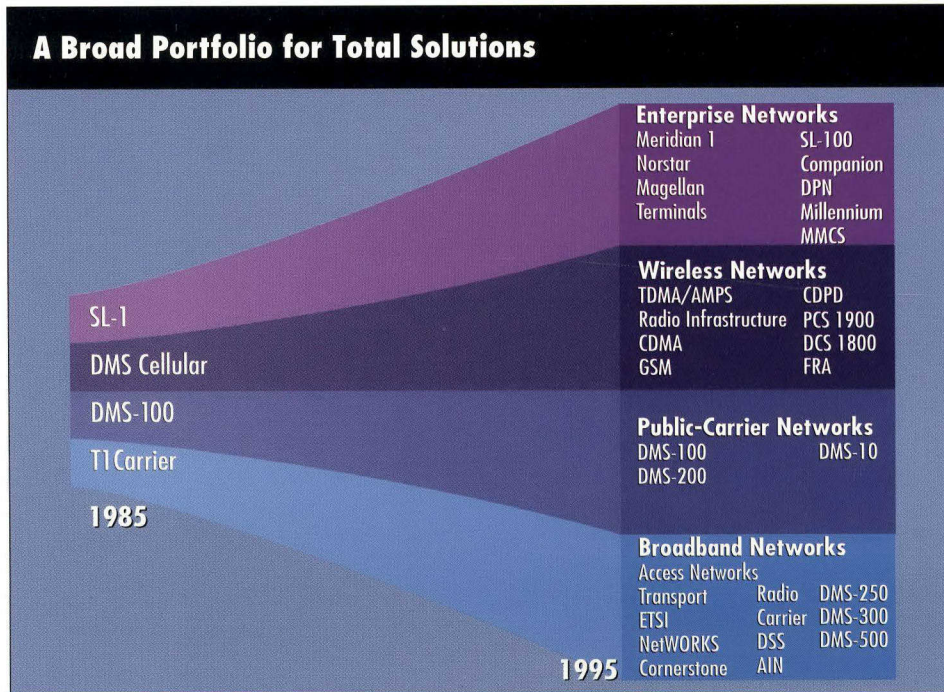
For Nortel, Telecom 1995 was a point of demarcation, a break between the strategies that defined the Northern Telecom of the past and the transformed company meeting the needs of an expanding and diverse group of customers around the world:

- Traditional public carriers, for more intelligence and bandwidth in their networks.
- New alternate carriers, cable-TV companies, and long-distance service providers, for speed to market and consumer differentiation.
- Wireless-network providers, for increased mobility performance and service functionality and faster service deployment.
- Private companies, public institutions, and other enterprises, for multi-media applications.

Nortel offers these customers one of the industry's broadest portfolios of technologies and network solutions.

- World-leading enterprise-network solutions, including ATM switching systems, data-networking systems, PBXs, digital key systems, in-building wireless systems, advanced display-based terminals, data security and encryption software, and multimedia products for computer-telephony integration.
- The industry's most comprehensive portfolio of turnkey wireless-network solutions, including those based on TDMA, CDMA, and GSM digital cellular technologies, PCS 1900 and DCS 1800, and fixed-wireless-access technology.
- A comprehensive portfolio of products and services for high-speed transport and access, Internet access, residential broadband, and network and services management.

- The world's largest portfolio of public network services, including the leading call-center solution, the industry's only Centrex product capable of computer-telephony integration, voice-recognition services, and pay-per-use billing systems.



Nortel's portfolio of technologies, products, and systems has evolved to provide customers with the industry's most complete network solutions.

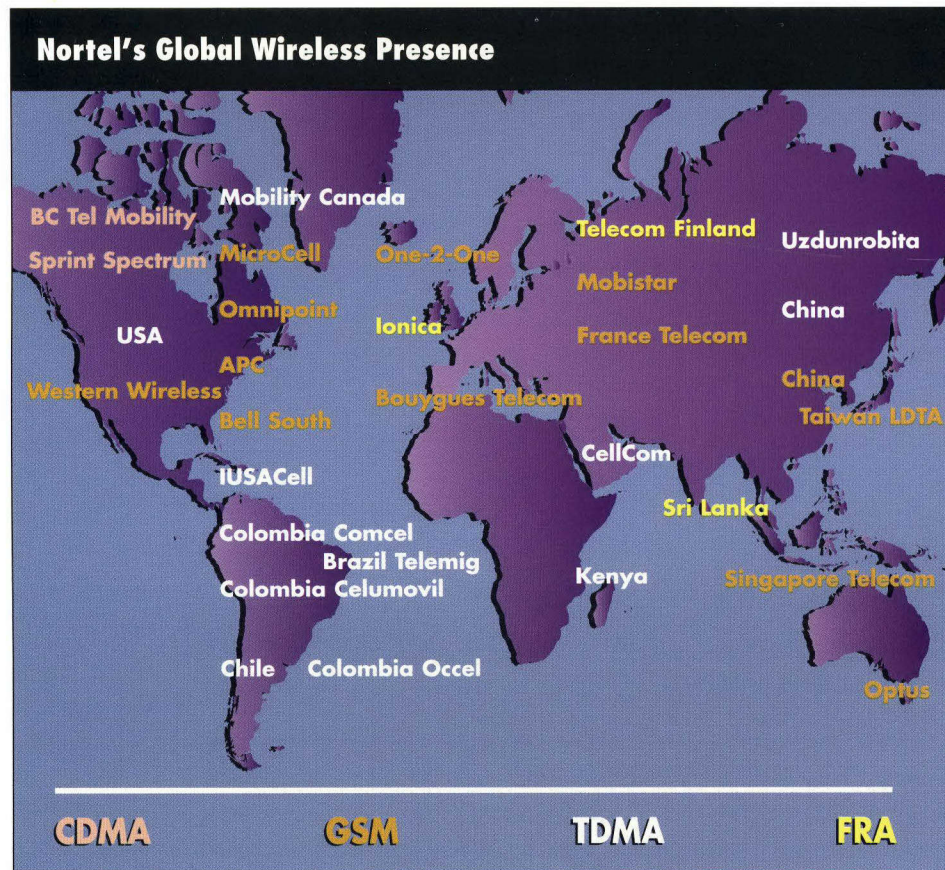
Nortel has developed a new technology architecture, modeled on the established client-server concept of the computing and local-area network (LAN) industries, that unbundles and distributes functionality to create building blocks that can be used across all product lines. This approach offers Nortel customers flexible configurations to meet diverse network requirements, multivendor sourcing, and plug-and-play provisioning.

The company has a unique understanding of the important products in a network and the role each plays in delivering lower operating costs, rapid service deployment, flexible evolution strategies, and revenue-generating opportunities.

New Networking Opportunities

Networking is about communication: person-to-person, business-to-business, and between computers themselves. The telecom revolution is creating enormous new opportunities for network suppliers, software designers, content producers, and local and long-distance service providers.

Today, wireless networks can be created quickly, reaching thousands of new users in a matter of months. Cable television can be enhanced with voice, data, and wireless technology. Optical fiber is driving down the cost of transmission, changing the way networks are designed and built. Intelligent networks are increasing the flexibility and scope of services and solutions available to users.



Nortel has established a global presence in the wireless market with a complete portfolio of digital products in all major wireless technologies.

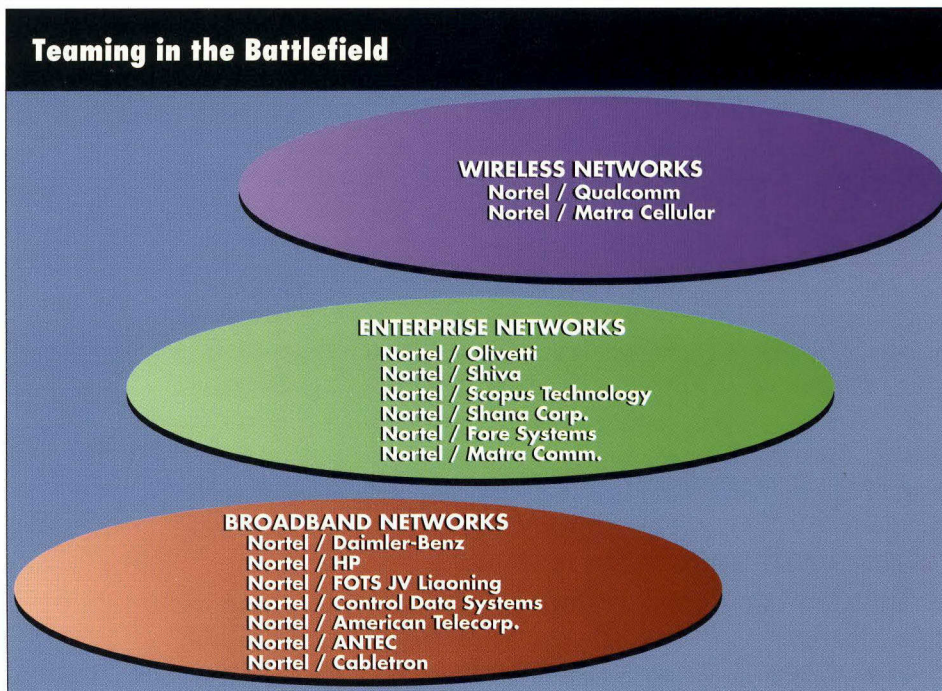
Nortel is well-positioned to capitalize on new networking opportunities. One of the most promising is the PCS market in the U.S., which is expected to experience tremendous growth, increasing from 30,000 subscribers at the end of 1995 to more than 32 million by the turn of the century. Nortel was the first supplier to receive full certification for its GSM PCS network equipment in the U.S. The company has staked out a solid position in global wireless markets, with a broad portfolio based on GSM, CDMA, and TDMA technologies. Nortel's alliance with Qualcomm to develop and manufacture CDMA-based technologies enhances this position.

The wireless revolution has created new opportunities (and new customers) in many industry segments, including the enterprise-network market. Nortel's Companion product family is the market leader for in-building mobility systems. In 1996, Nortel introduced Companion Microcellular, the first digital system in North America that allows a cellular telephone to be used as a business telephone within a facility as well as a cellular telephone when connected to a public wireless network.

Strong growth is expected in the enterprise-networking market. Nortel's goal is to be the world leader by offering multimedia solutions not only to private companies but to public carriers as the distinction between private and public networks becomes blurred.

Growth is being fueled by Nortel's strong position in the expanding data and multimedia networks business, which includes data, frame relay, and ATM, with products and services offered under the Magellan family name. CPE revenues are also expected to grow rapidly, driven by demand for call centers, voice-mail servers, and new products such as wireless PBXs. The move to electronic commerce has created enormous demand for data-encryption systems, a demand being met by Nortel's Entrust software which very quickly became the leading data-security system for large network users.

Nortel is focusing its enterprise R&D on Internet access and security, voice recognition and display-based applications, multimedia applications, and



An international network of joint ventures, alliances, and partnerships is an integral part of the company's strategy.

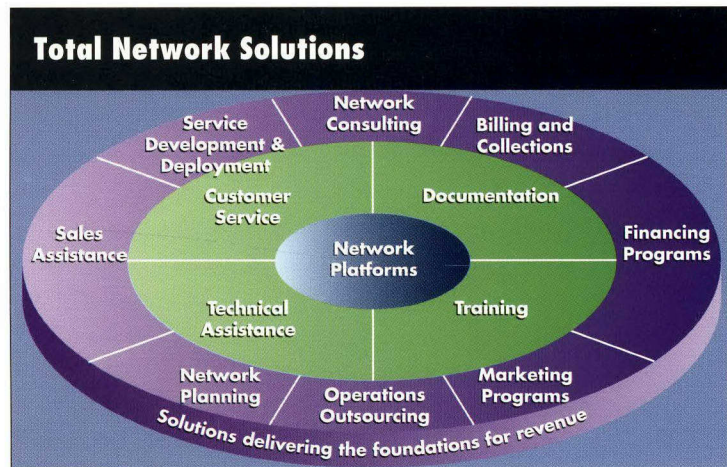
enterprise digital switching. Strategic relationships with Shiva and Fore Systems have led to new products such as the Rapport Internet Dialup switch and the Magellan Vector, already used as a backbone ATM switch by public carriers, including Sprint, MCI, and BCTel. Nortel's acquisition of Micom Communications, whose products integrate remote data, voice, fax, and local-area-network (LAN) traffic over private and public networks, will accelerate the integration and convergence of voice and data capabilities.

As traditional carrier networks evolve into broadband networks capable of handling data and video calls as easily as voice calls, the broadband business continues to gain momentum. Nortel's broadband products, led by the S/DMS family, transport voice, data, images, and video communications between locations. In 1995, the company achieved a global first when MCI used Nortel's OC-192 transport equipment to carry traffic at a rate of 10 gigabits/second in live, commercial service. Nortel also signed a \$500-million contract with WorldCom to provide SONET transport equipment, optical amplifiers, and network-management products.

Nortel offers a broad portfolio of products and services, including elements for the transport and access portions of the network and specialized systems for broadcast video. The company is positioned to deliver the broadband networks needed to handle an enormous flow of data from homes, businesses, and mobile devices.

At the technical level, the telecom industry is faced with the task of replacing existing networks to handle services never envisaged when they were designed and installed. Opening up the world's telecom markets to competition is critical to the creation of advanced international networks capable of supporting a global economy. *The Financial Times* of London commented: "Today's networks are not up to the task. Multimedia services in a variety of forms from videoconferencing to Internet services and broadcast entertainment offer operators a golden opportunity to maintain and increase profitability. Much depends on the operators' commitment to creating infrastructure suited to 21st-century services."

Nortel is committed to working with network operators to enable them to deliver "21st-century services." As new interactive multimedia and multigigabit networks are deployed, the digital infostructure of the 21st century will unleash services limited only by the human imagination.



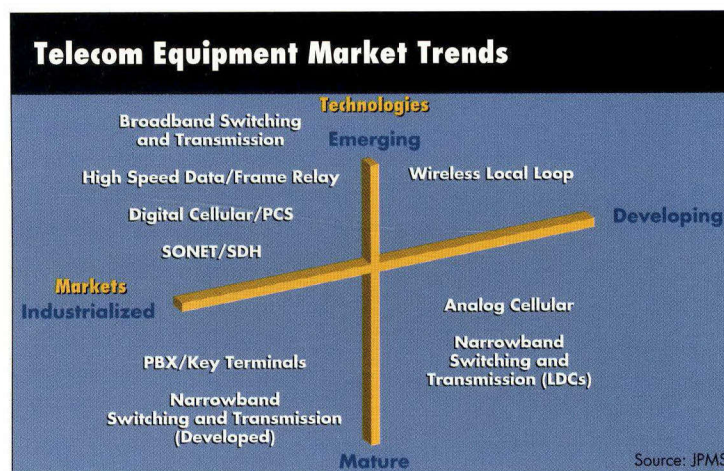
Nortel delivers total solutions in partnership with customers, including network planning, design, coordination, implementation, and operation.

As technology costs decrease, networks are being unbundled, or partitioned, into their principal functional elements: transport and connectivity, access, switching, and services. This is a departure from the monolithic network structures that, although suitable for their day, are difficult and costly to evolve to meet new market demands. Far from monolithic, the global markets for telecom infostructure differ widely across products and markets in terms of penetration and acceptance.

The advent of new communications technologies over the past 10 years has created several new and lucrative markets for suppliers around the world. These technologies share a common theme: they allow service providers to increase network reliability and offer new, value-added services and/or decrease costs.

Developing the next generation of communications networks that support open interfaces, flexible configurations, and plug-and-play provisioning will not happen overnight. The industry will get there in evolutionary steps using the revolutionary technologies available today: optical fiber; SDH and SONET, for seamless transport; ATM for high-speed, flexible switching; wireless communications (digital, local access, PCS); and low-cost distributed computing. Industry estimates indicate that worldwide SONET/SDH, PCS, and packet/cell switching markets may total in the tens of billions at the end of the decade.

The overriding technological forces influencing communications network design and development are high-bandwidth fiber and powerful digital transmission techniques. Together, these two forces are turning the traditionally narrow trickle of bandwidth delivered to end users into what has been described as a “downpour.” The creative forces of a competitive marketplace are also a powerful catalyst for innovations in technology, and have had a profoundly liberating and energizing influence on the global communications industry.

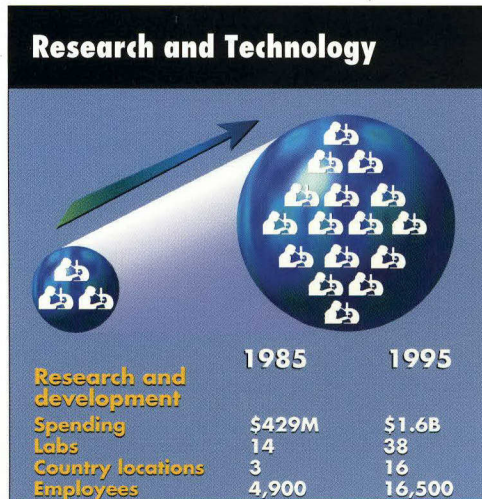


The accelerating pace of technology change and differing customer needs have made the communications sector more dynamic and complex.

Creating A World of Networks

Nortel is no stranger to competition, innovation, and adaptation. The competition the company faced in the mid-1980s was no less challenging than the competition it faces today. And where innovation is concerned, Nortel continues to invest in creating innovative network solutions. Nortel has built its success on the solid foundation of innovation and investment in research and development, which drives growth, creates competitive advantage, improves performance, and delivers value to the customer.

Through increased investments, Nortel is aligning R&D more closely with customer requirements and is accelerating the process of innovation throughout the company, especially in key areas such as wireless and broadband networking, photonics, microelectronics, digital signal processing, and software.



Globalization of R&D positioned Nortel at the forefront of emerging technologies throughout North America, Asia/Pacific, the Middle East, and Europe.

The company has invested heavily in developing its software capability, a critical asset for managing complex high-speed systems and delivering new applications. Indeed, the shift in focus from hardware to software has been at the very heart of the company's transformation over the past 10 years.

Nortel's commitment to being a leader of change and innovation is expressed by "A World of Networks," its vision for interconnecting islands of intelligence – personal computers and information devices – so that their capabilities can be fully exploited.

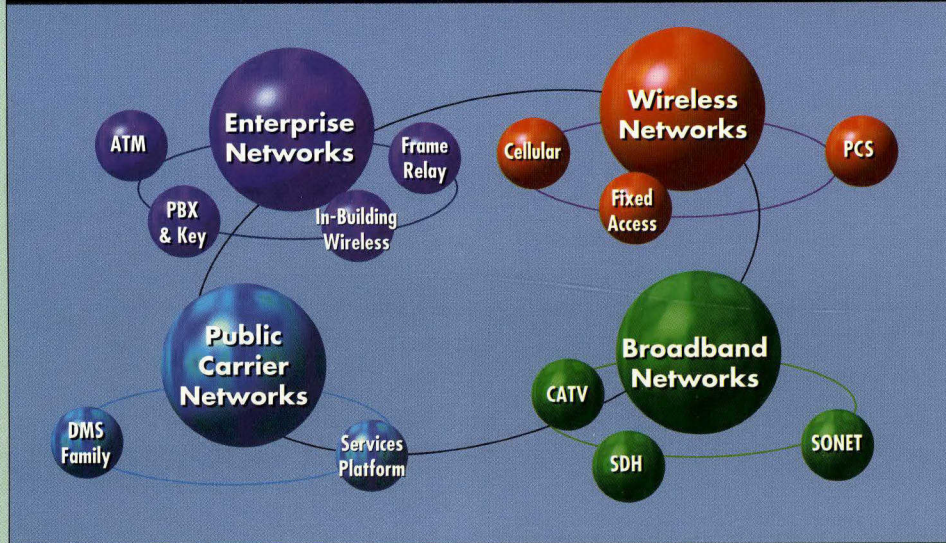
While "A World of Networks" offers a panoramic view of the

future of global communications, it is also a practical view driven by changing marketplace realities. These realities point to a broad range of networks serving many different customers, operated by many different organizations, carrying many different kinds of traffic – voice, text, video, and data – for communication, information, entertainment, education, and commerce.

"A World of Networks" is a clear assessment of the current state of the industry and where it's heading, driven by exciting new technologies and entirely new product and network categories designed to exploit them: interactive video-on-demand systems, multimedia terminals, fixed wireless access, direct broadcast satellites, pocket-sized personal digital assistants, personal communication systems (PCS), analog display-services interface (ADSI) systems, telephony over cable, the Internet, and the World Wide Web.

The global communications network has evolved into a network of networks that continues to evolve as customers demand a mix of wireless, broadband, and multimedia capabilities providing solutions tailored to their unique needs and those of their end users.

Creating A World of Networks



“A World of Networks” is Nortel’s vision of the future of telecommunications. It recognizes that the telecom revolution is creating a variety of networks for voice, video, and data, opening up infinite possibilities for mobile, interactive, multimedia communications, anytime, anywhere.

In this world, customers want more than boxes and stand-alone products. They need a range of network solutions and expect Nortel to take a global network view.

- “A World of Networks” describes the global communications environment of the 1990s and beyond: a multiplicity of networks serving many customers, operated by many public and private entities, and carrying many kinds of traffic.
- “A World of Networks” defines what Nortel offers its customers: a range of broadband, narrowband, wireless, and enterprise network solutions – from backbone to desktop – to meet the needs of a diverse and ever-growing family of customers.
- To create “A World of Networks,” Nortel is working with its customers and international alliances to forge a shared understanding of network evolution and develop innovative solutions to meet an unpredictable future.

“A World of Networks” sets the position and direction for Nortel as the global resource for designing, building, and integrating digital networks for information, entertainment, education, and commerce.

"A World of Networks" is a global vision, and with good reason. Nations and businesses around the world are upgrading their infostructures to enhance telecompetitiveness, increase the capabilities of electronic commerce, and improve commercial and trade efficiencies. Network infostructure is being built and operated in different countries, based on different standards and meeting different local priorities, while interconnecting with the rest of the world.

For Nortel, "A World of Networks" revolves around specific customer segments while acknowledging a blurring of boundaries between wireline carrier networks based primarily on switching and broadband products, wireless networks incorporating a range of radio standards, and enterprise networks optimized for multimedia communications. At the same time, customers in other rapidly growing market segments are looking for a variety of service applications and approaches to network implementation. Information-service providers seek to maximize their reach and efficiency. Cable companies want to increase the range of services they offer on their networks.

For Nortel, then, "A World of Networks" represents the redefinition of the company in terms of its market positioning, products, and customer base.

A Decade of Achievement

The years between 1985 and 1995 were years of great accomplishment, especially after 1993 when Nortel expanded its portfolio to offer the industry's broadest range of digital networking solutions for creating "A World of Networks."

During the decade of change, Nortel invested in deploying resources globally – people, R&D labs, manufacturing plants – and developed relationships around the world. It became skilled in using international alliances, joint ventures, and acquisitions to accelerate its global expansion and portfolio growth.

The company created new partnerships with its customers, building stronger relationships.

Nortel took on the role of a network integrator, linking its own products and services with the equipment of others to offer total digital network solutions, often on a turnkey basis. Nortel became a network-solutions company based on its competencies in integrating the key components, technologies, and skills that respond to new customer needs.

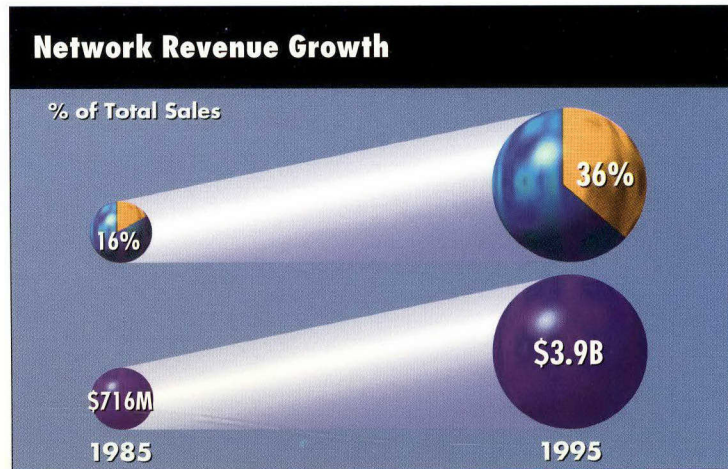
Nortel's Alliance Portfolio

Shiva	Internet Access
Fore Systems	Wide Area Networks/ATM
Cabletron Systems	Communications & Data Networking
Hewlett-Packard	Advanced Intelligent Networks
Omnipoint	PCS Networks

Nortel is pursuing strategic alliances to shorten its time-to-market with innovative products.

Tested against the key criteria defining a first-tier supplier and partner, Nortel has a leadership position in the industry:

- Strength in home markets and solid positioning in global markets.
- Broad portfolio mix and expertise in growth-market segments.
- Profitability, productivity, and financial strength.
- Large installed base.
- Substantial investments in technology.



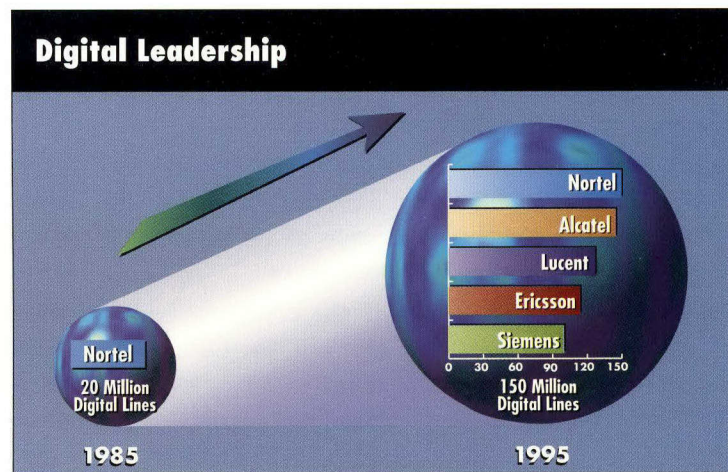
Sales of complete networks – versus products and network elements – have increased steadily since the mid-1980s.

By 1995, the company had made the transition from supplying “boxes” and systems to assembling integrated network solutions for an increasingly diverse base of customers, offering a new three-dimensional value proposition: leadership in digital networks, breadth of portfolio, and global reach.

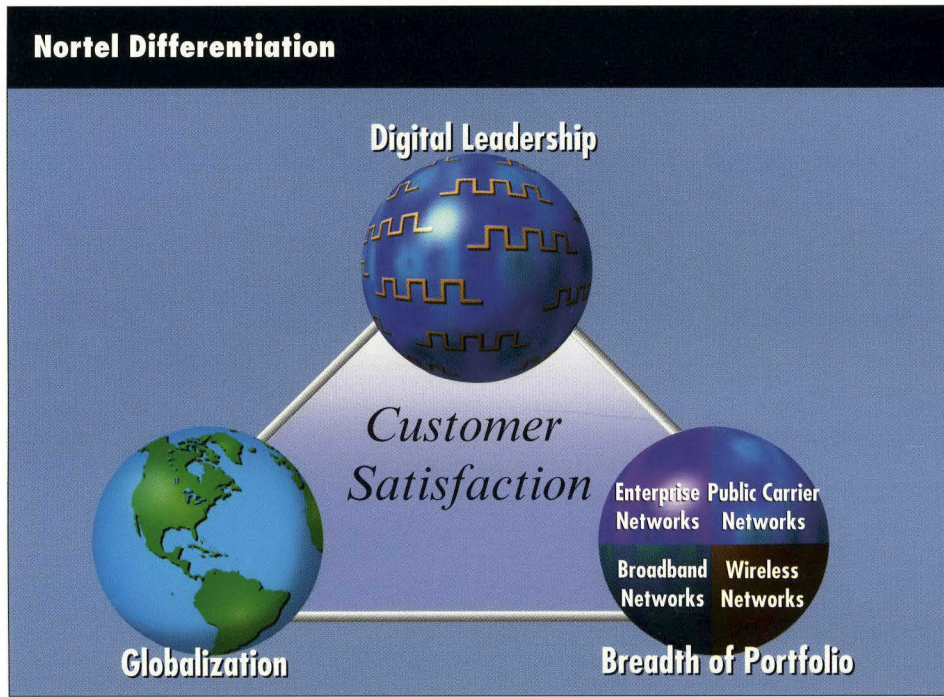
The legendary Rip Van Winkle slept for 20 years. He went to sleep a loyal subject of King George III. When he awoke, he was a citizen of something called the United States of America. He literally slept through the revolution.

Rip Van Digital slept through the revolution that transformed Northern Telecom while giving birth to the new golden age of telecom, an era that George Gilder calls “the supreme opportunity in the world economy today.”

The changes that took place didn’t always come easily or without disruption. For many companies in the industry, these years were a time of troubles, turnarounds, and recoveries. Northern Telecom took a \$200-million restructuring charge in 1988 to prepare the company to compete more effectively in the global markets of the 1990s. And a billion-dollar writedown and restructuring charge midway through 1993 served as a mobilizing jolt that led to a reordering of



In 1995, Nortel had over 150 million digital access lines in service worldwide – 10 percent more than its nearest competitor.



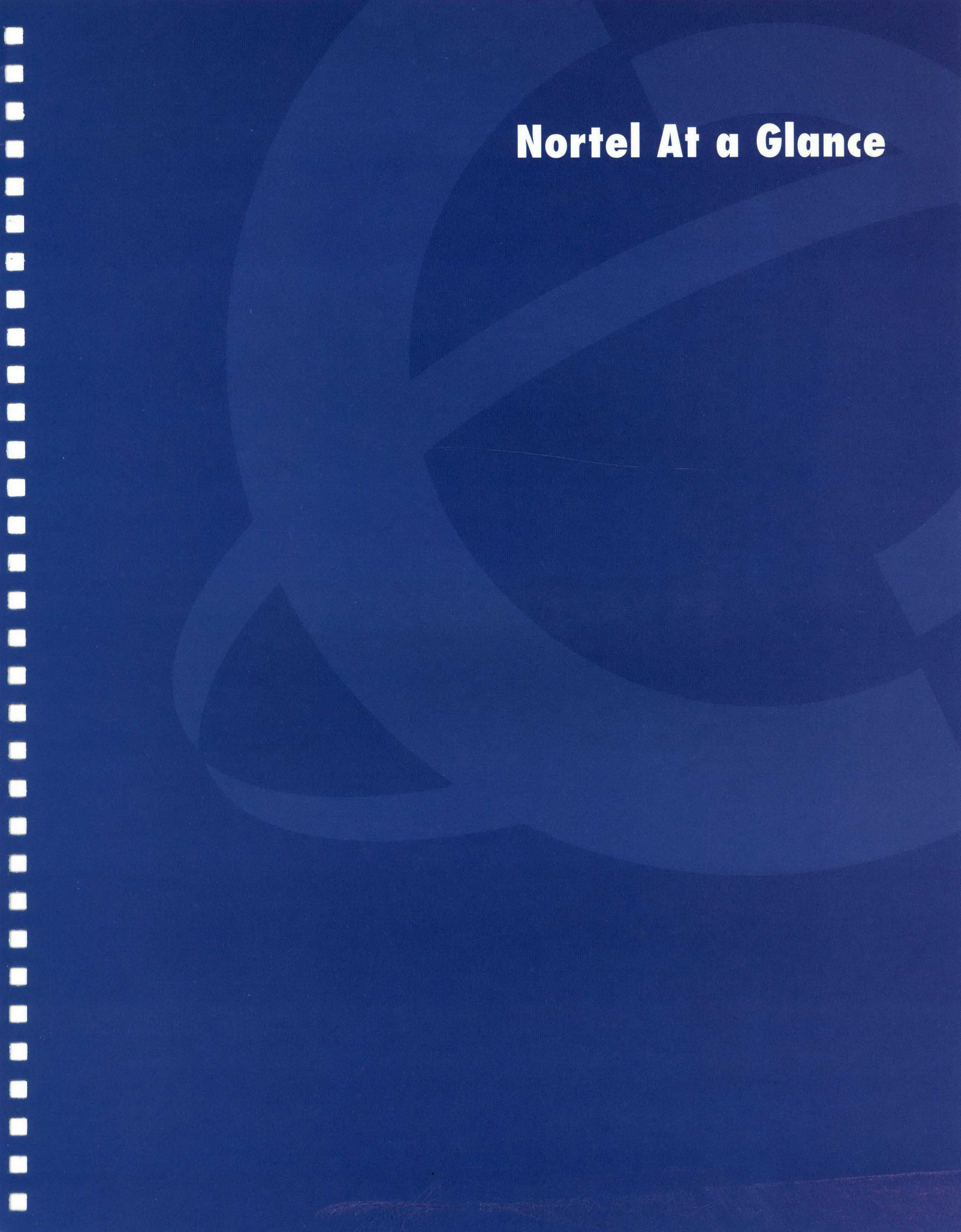
Nortel is differentiated from its competitors by its digital leadership, global reach, and breadth of the product and technology portfolio.

priorities and investments that accelerated Nortel's transformation and marked its own turnaround and recovery.

Neither the transformation of the industry nor the company is complete. The process will continue far into the future. But the years between 1985 and 1995 were an extraordinary decade of unprecedented change that created an abundance of new growth opportunities.

Over the past 10 years, the company built on the foundations set by the Digital World platform of 1976, the OPEN World (Open Protocol Enhanced Networks) commitment made in 1983, and the FiberWorld announcement of 1989 – all initiatives that established Nortel as an innovator and industry leader.

Now, two decades after introducing Digital World, Nortel has the opportunity to work with its customers and international partners to create network infrastructure "suited to 21st-century services." This is the supreme growth opportunity Nortel and its partners will have well into the next century.

The background is a solid dark blue. On the left side, there is a vertical line of white squares, resembling a perforated edge. Overlaid on the blue background are several large, semi-transparent circles in various shades of blue, creating a layered, abstract effect. The circles are of different sizes and are positioned such that they overlap each other, with some appearing more prominent than others.

Nortel At a Glance

Northern Telecom's Transformation 1985-1995

	1985	1995	
Core business	Design and manufacture of telecommunications equipment	Design, deployment, and integration of digital networks	
Market positioning	Technology leader	Global resource for digital network solutions and services	
Customers	Operating companies, large communications users, distributors	Wide range of network service providers, public and private enterprises	
Employees			
U.S.	21,972 (47%)	22,410 (35%)	
Canada	21,338 (46%)	21,263 (33%)	
International	3,239 (7%)	20,042 (32%)	
	46,549	63,715	
Research and Development			
Spending	\$429M	\$1.6B	
Labs	14	38	
Country locations	3	16	
Employees	4,900	16,500	
Manufacturing plants			
Canada	25	15	
U.S.	15	4	
International	5	19	
	45	38	
Revenues			
U.S.	\$2.9B (67%)	\$5.4B (50%)	
Canada	\$1.1B (25%)	\$1.1B (11%)	
International	\$320M (8%)	\$4.2B (39%)	
	\$4.2B	\$10.7B	
Revenue per employee	\$90,227	\$167,935	
Revenues by Product Line	1985	Revenues by Network Business	1995
Digital switching	50%	Public-carrier networks	40%
PBXs, CPE, subscriber apparatus	30%	Enterprise networks	30%
Transmission equipment	13%	Broadband networks	10%
Cable and outside plant	6%	Wireless networks	15%
Other services	1%	Other	5%



Nortel in the New Age of Telecom

Nortel is the global brand for digital networks for communication, information, entertainment, education, and commerce.

Core Competencies

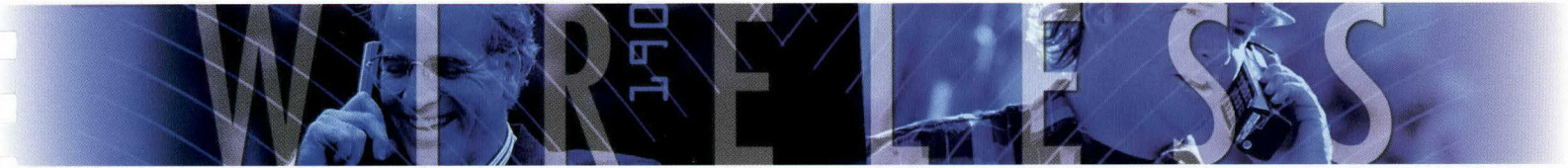
- Industry-leading digital networks.
- Experience and in-depth understanding of the evolution and architecture of public and enterprise networks.
- Cost-effective high-performance switching systems incorporating technologies such as ATM, circuit, packet, and frame switching.
- Robust object-oriented software for scalable, complex switching systems.
- Industry-leading radio and antenna design capabilities.
- High-capacity optoelectronic systems.
- Voice-recognition systems.
- Encryption and data-security systems.
- Management of digital networks.
- Rapid identification and responsiveness to major market trends and discontinuities.
- Clear understanding of market requirements coupled with the proactive creation of network opportunities for customers.
- Network and services planning, from standards to product manufacturing, network design and deployment, and systems integration.

Competitive Advantages

- Leadership in deployment of “mission critical” digital networks.
- Broadest product portfolio in the communications industry.
- Reputation and expertise of Nortel’s 16,500 research scientists, engineers, designers, and other technical professionals.
- Global presence in more than 150 countries, with 38 R&D labs in 16 countries.
- Strong strategic relationships through alliances, joint ventures, and an extensive network of distributors.
- Close alignment of Nortel business objectives with service and business objectives of network operators and service providers.

Nortel's Lines of Business

SEGMENT	DESCRIPTION	PRODUCTS	CUSTOMERS
Public Carrier Networks 40% 1995 Revenues	Used by telecommunications operating companies to interconnect access lines and transmission facilities to provide local or long-distance services	Digital Multiplex System (DMS) family of switches	Local-exchange carrier networks (LEC)
Enterprise Networks 30% 1995 Revenues	Primarily private digital switching systems, usually located in the customers premises, which permit voice, data, or multimedia terminals to communicate with each other	Meridian 1 family, Meridian Norstar digital key telephone systems, Magellan family, Companion in-building wireless system, multimedia desktop products	Governments, universities, and leading retail, hospitality, healthcare, finance, and transportation companies
Wireless Networks 15% 1995 Revenues	Products used by service providers to address the mobile and fixed-wireless communications markets	DMS-MTX and DMS-MSC SuperNode cellular-switching systems, base-station subsystems for AMPS, CDMA, TDMA, and GSM-based standards, Proximity family for fixed-wireless access	Cellular telephone operators, personal communications service providers, and fixed wireless-access operators
Broadband Networks 10% 1995 Revenues	Products that transport voice, data, image, and video between locations within cities or between cities, countries, and continents	SONET/SDH TransportNode high capacity inter-office and long-haul transport, access, DMS-250/300/500 carrier switching systems	Inter-exchange carriers, alternate network operators, cable television operators, and competitive access providers



Wireless Networks

Vision

Deliver complete network solutions that allow global operators to provide “anytime, anywhere” communications services to business and consumers.

Description

- Wireless network systems were 15 percent (\$1.6 billion) of 1995 revenues.
- Offers broadest end-to-end wireless-access solutions for all major global air-interface standards.
- Market leadership in fixed-wireless-access systems with a broad portfolio of Proximity products deployed around the world.
- Entered into alliances with:
 - Qualcomm, to supply CDMA network infrastructure
 - Omnipoint, to deploy a PCS network in the New York Metropolitan Trading Area
 - Ionica, to develop fixed-radio-access (products and systems).
- Highest-capacity mobile switching system in operation today with the DMS-MTX SuperNode.
- Developed the industry’s first:
 - DSP-based radio, capable of providing AMPS, TDMA, and CDPD channels on a call-by-call basis
 - Smart Base Transceiver Station (Smart BTS), which doubles the coverage of a conventional PCS 1900 cell site, improves signal quality, reduces interference from neighboring cells, and allows PCS 1900 network operators to reduce equipment, capital, and operating costs.

Competitive Advantages

- Broadest wireless infrastructure portfolio in the industry.
- Customer-focused network solutions that help operators generate revenues quickly.
- Global scope and reach.
- Technology innovation in radio and antenna design and in surface acoustic wave (SAW) filters.

Broadband Networks

Vision

To supply networks that provide consumers with reliable, user-friendly and controlled access to information, entertainment, and the evolving electronic marketplace.

Description

- Broadband accounted for 10 percent (\$1.07 billion) of revenues in 1995.
- Offers a full portfolio of network products and applications, combined with decades of experience working with successful carrier-network customers in highly competitive markets. Products include:

Access	AccessNode, Cornerstone, CoaxNode, DV45, DV-MPEG, FDS-1, DMS-1
Transport	Nortel TransportNode OC-3, OC-12, OC-48, OC-192, optical amplifiers, RD- and RW-series digital radio
Switching	DMS-250 long-distance, DMS-500 combined local/long-distance, DMS-300 international gateway
Intelligent Networks	ServiceBuilder
Director & Operator Service	ADAS, TOPS
Network Management	DSS II NetWORKS, Network Manager INA, CALRS, DFMS

- World's leading supplier of high-capacity synchronous optical transport systems and the first supplier to put a 10-Gbit/s synchronous system (OC-192) into commercial service (with MCI in September, 1995).

- World's leading supplier of competitive carrier networks (MCI, Sprint, Mercury, KDD, Optus, Energis, Avantel, WorldCom, Vvvx, LCI, ICI, Concert, fonorola, ICC Communications, IUSACell).
- Major supplier of multi-purpose networks to the converging telecommunications-CATV market (Cox Communications, New Brunswick Telephone, Jones Intercable, Cablevision Systems, Integrated Communications Network, Bell Cablemedia, Yorkshire Cable, Encom, LCL Cable Enterprises, Diamond Cable, Videotron).
- Formed two joint ventures with ANTEC Corporation in 1995 to increase penetration of the CATV market in the US.
- Offers a total network solution: Everything needed to successfully enter the carrier market, from business-case analysis, network design, implementation, management, marketing, and sales to network users.

Competitive Advantages

- Comprehensive product and service portfolio.
- Ability to deliver end-to-end solutions.
- Leading technology expertise in optoelectronics, software, digital video codecs, and RF modems.
- Global products (SONET and SDH transport, DMS voice switching, network management software).
- Experience with hundreds of national and global networks provides an advantage in network design for cost-efficiency, reliability, and flexibility.

Public Carrier Networks

Vision

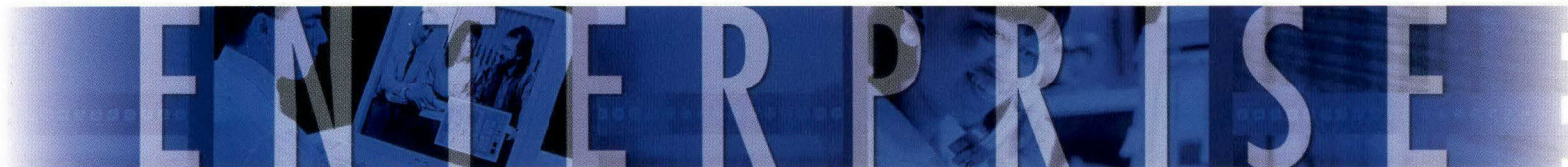
To build collaborative network solutions to maximize customer profitability and deliver competitive new services for public-carrier customers.

Description

- Public-carrier networks accounted for 40 percent (\$4.28 billion) of 1995 revenues .
- Nortel is one of the world's leading suppliers of digital switching systems for network operators, including the DMS-10, DMS-100, DMS-100/200, DMS-200, DMS-250, DMS-300, DMS-500, and DMS Operator Service Systems (DMS-MPX).
- The DMS-100 digital switching system outperformed the competition in the public switched network in the United States in 1995. In the FCC's 1995 major outage report, Lucent's 5E switch had 30 percent more outages and 20 percent more downtime and the Siemens EWSD system experienced 70 percent more out-of-service time.
- Entered into a joint venture with Hewlett-Packard to deliver Advanced Intelligent Network solutions quickly and flexibly to meet customers' needs.
- A leader in ISDN development, with the DMS-100 ISDN family providing enhancements to meet the needs of business users and telephone operating companies.
- Nortel's switching platforms enable customers to offer advanced services and features in a timely, responsive, and cost-effective manner. Key technology thrusts include the development of new features in an object-oriented software architecture and of a multiprocessor computing system designed to enhance the capacity of the DMS system in the high-service-intensity environment of AIN and local number portability.

Competitive Advantages

- Process to determine critical service-provider requirements in networks throughout the world and to identify the unique requirements of end users.
- A focus on the delivery of applications that provide business solutions for large and small businesses and new sources of revenue for network operators.
- Residential service enhancements, like Analog Display Services Interface (ADSI), which facilitate new applications.
- Ability to engineer, furnish, and install systems integration/turnkey network solutions using the Nortel portfolio and other products and services.
- Expertise in developing reliable, robust software for central-office switching systems using object-oriented programming and state-of-the-art software production facilities.
- Strong after-sale and post-implementation support.
- Flexibility of the DMS switching platform to provide competitive advantages to network operators and service providers while also delivering cost advantages.



Enterprise Networks

Vision

To be the global leader in enterprise networks by making a multimedia call as simple as a voice call is today.

Description

- Enterprise networks accounted for 30 percent (\$3.2 billion) of revenues in 1995.
- Nortel is a leading manufacturer of comprehensive systems for communications networks:
 - PBX and PABX applications
 - telephone key systems
 - data networking
 - ATM backbone network switching
 - computer-telephony integration
 - data-security and encryption systems (Entrust)
 - multimedia networking
 - campus and in-building wireless (Companion family)
 - customized solutions, including call center, voice-processing systems, Internet solutions, and networks for global organizations.
- Strategic partners include:
 - Fore Systems to develop WAN and end-to-end ATM solutions
 - Shiva to provide remote access solutions to Internet service providers
 - Cabletron Systems to develop and market integrated communications and network products and services
 - Sun Microsystems for Java-based communications appliances.
- Installed base of the Magellan Passport exceeded 2,100 switches by 1995.
- Rapport family provides Internet Solutions.

Competitive Advantages

- Broad and diverse product portfolio serving a global enterprise customer base.
- Global product lines.
- Management of customers' enterprise networks as well as customer-focused and customer-tailored network solutions.
- World leader in shipping of digital lines, taking into account PBX as well as digital-wireless switching and central-office switching.
- International network of alliances, joint ventures, and distributors.
- Industry-leading applications of voice recognition in the telecom environment.
- Own and operate one of the world's most advanced corporate networks, which allows for the application of extensive experience to customers' networks.

Fax Order Form

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what's possible?

Northern Telecom 1995 Annual Report

NORTEL

NORTHERN TELECOM

what's possible?

Northern Telecom 1995 Annual Report

see for yourself

**we're creating
a world
of networks**

**Nortel is
working closely
with customers
worldwide to
create a wealth of
new possibilities.**

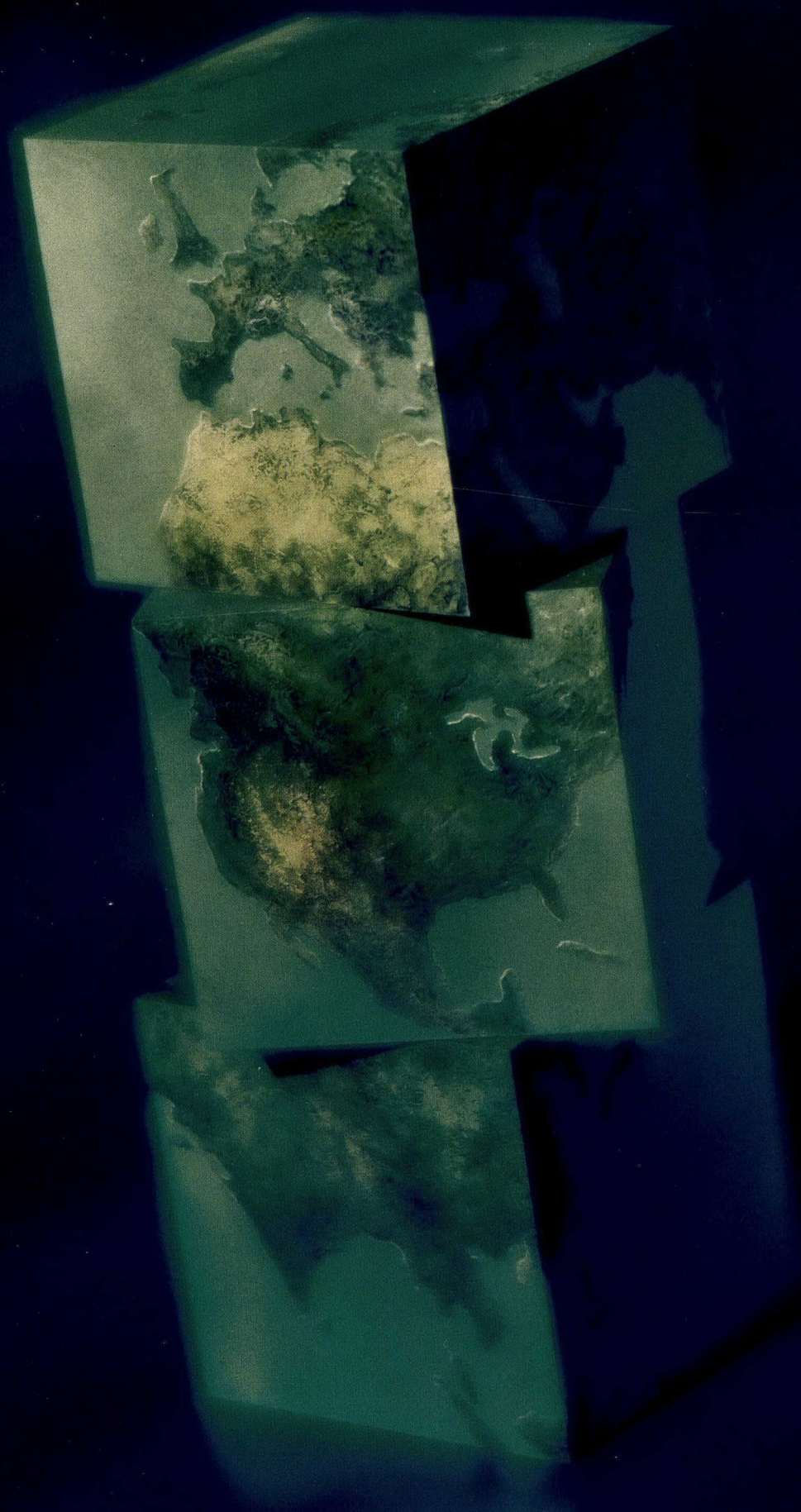
**We believe
we now offer the
broadest choice**

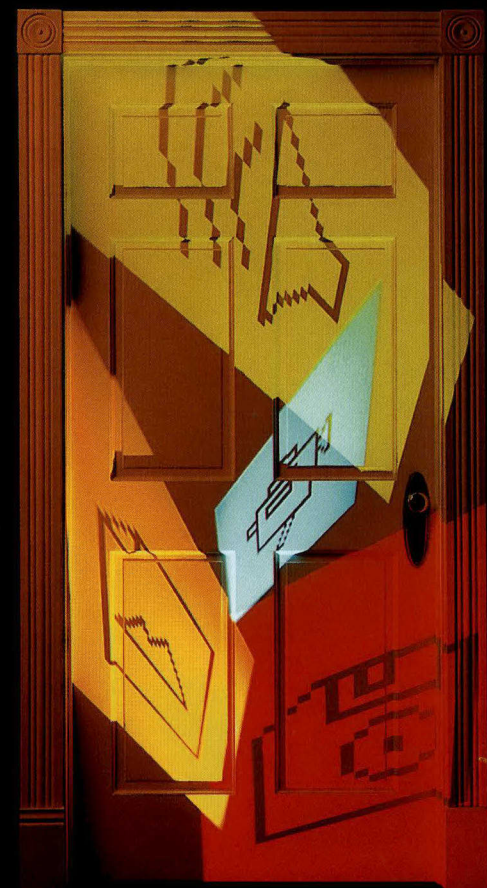
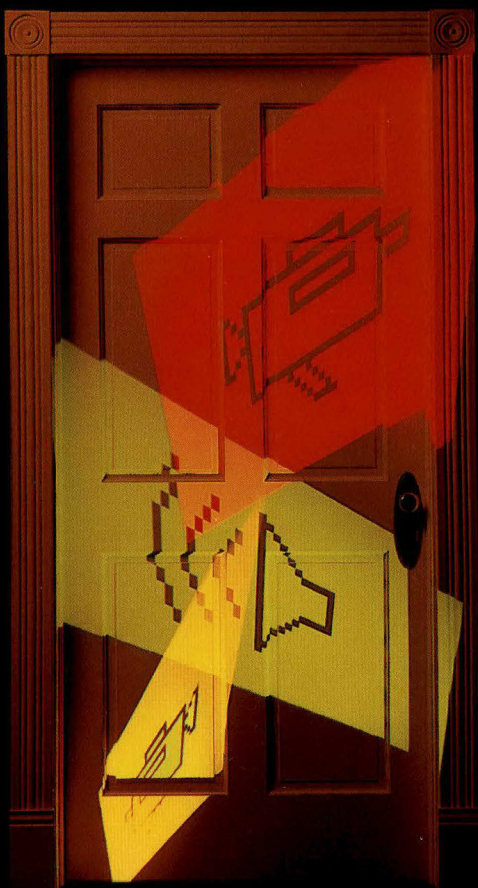
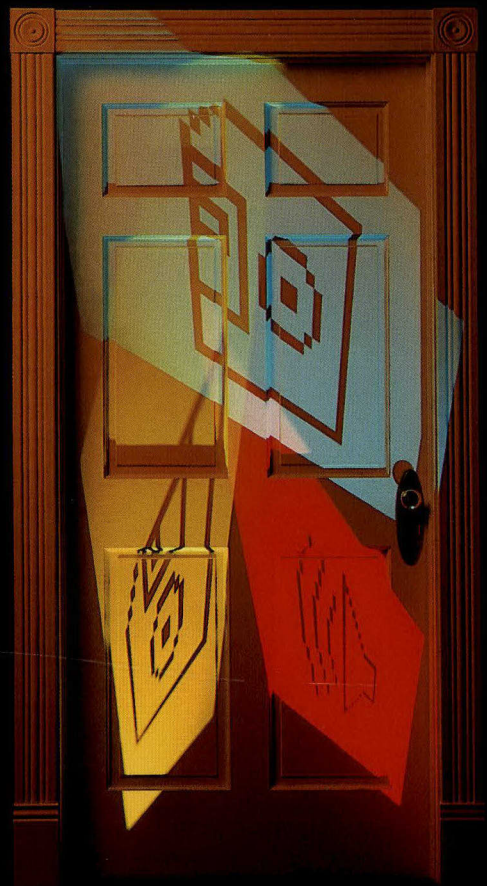
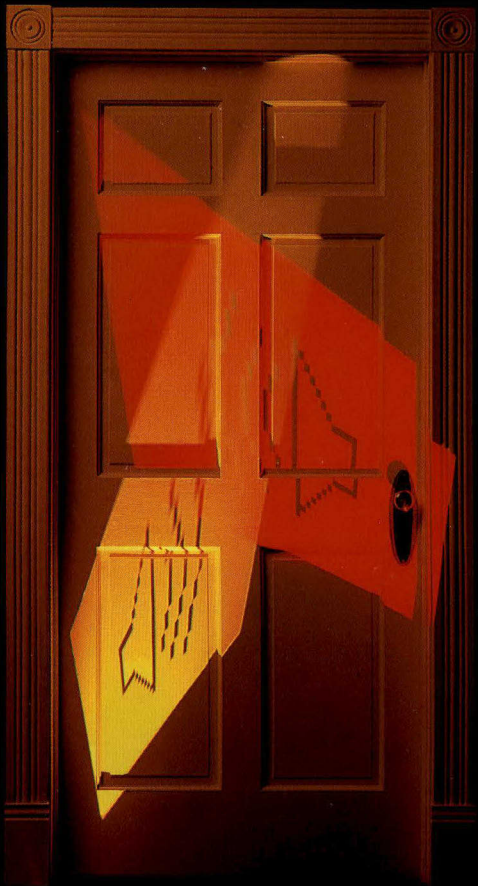
of products for
designing,
building, and
integrating digital
networks—for
information,
entertainment,
education,
and business.

worldwide

Telecommunications service providers are expanding globally, and they rely on Nortel around the world to help them build networks that serve their customers wherever they go.

For virtually any application anywhere, Nortel's wide range of network solutions meets the needs of even the most sophisticated customers. SITA (Société Internationale de Télécommunications Aéronautiques), for example, has built the world's largest private data network using Nortel systems to connect more than 170 countries and territories. The SITA network serves the global airline industry, as well as multinational customers in the banking, oil, industrial, hospitality, and governmental sectors. Now SITA is entering the global voice business, with a Nortel-based network that will span Europe, Asia Pacific, and the Americas. As new markets and opportunities emerge for service providers and businesses around the world, Nortel will be there.





broadest choice

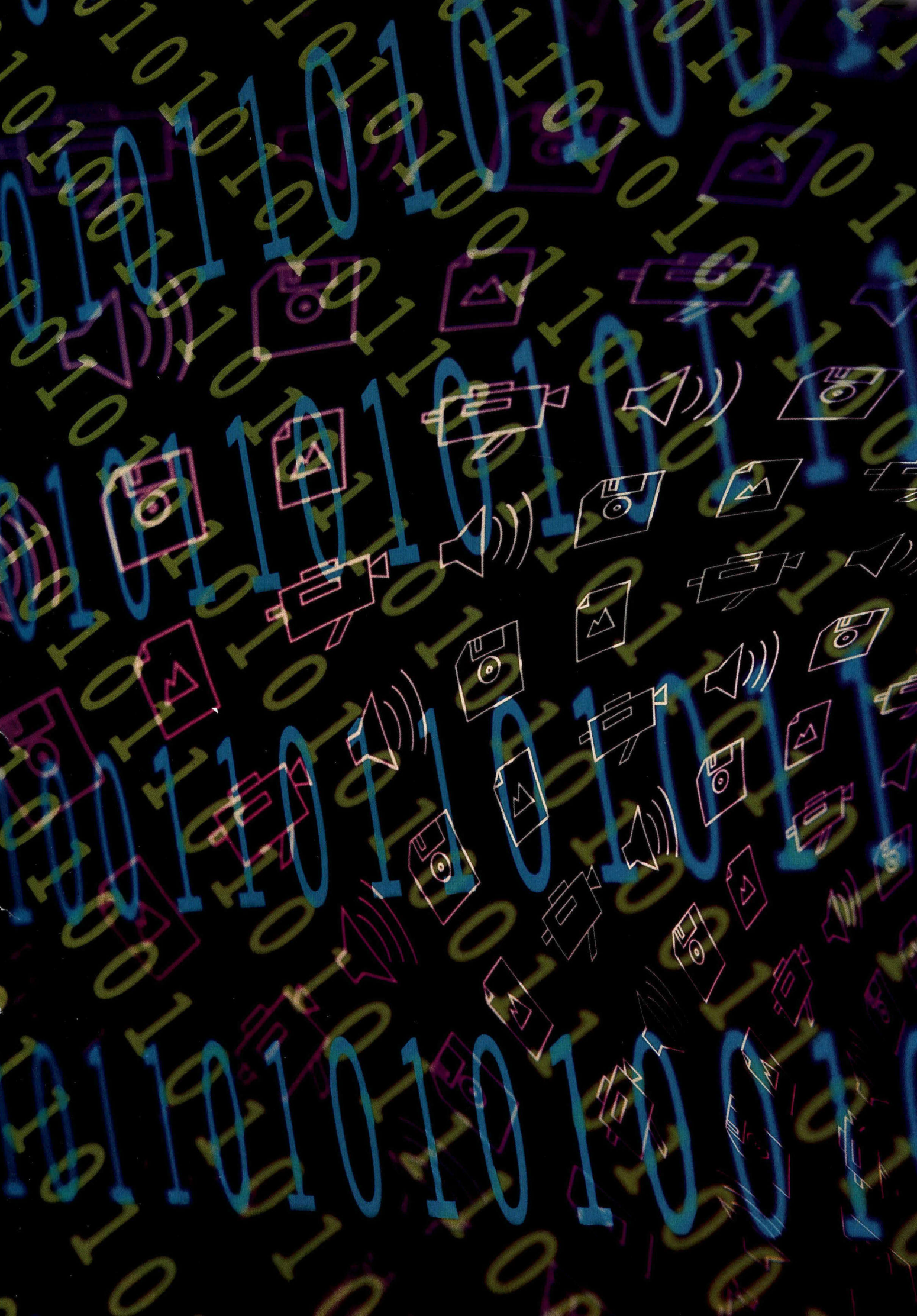
Converging technologies are changing the world and creating uncertainty. To provide our customers with the right solutions for the future, Nortel offers a breadth of products for every kind of network.

Today's "age of choice" is bringing users a host of new services, while service providers are enjoying network flexibility and new opportunities for revenues. Nortel's diverse networking solutions offer ways to seize these opportunities. In the southeastern United States, for example, BellSouth Personal Communications chose Nortel to construct a new digital Personal Communications Services (PCS) network for the Carolinas and East Tennessee. In Europe, Nortel's Proximity fixed radio access system is helping service providers in the Czech Republic, Finland, and the United Kingdom to offer new, competitive local telephone service to residential and small business customers. The Proximity family of wireless access products uses radio instead of copper cable, reducing the time and costs associated with constructing new networks. In an age of choice, we believe Nortel is the obvious one.

digital networks

From a five-person office to a multinational corporation, at home or on the road, in emergencies or for fun, digital networks built with Nortel products provide fast, efficient, and reliable communications.

Our customers are building networks that connect communities, cross countries, and span the globe. Networks that are wired, or wireless. High-speed networks that carry voice, data, and video. In 1995, Nortel's range of innovative solutions helped our customers build many kinds of networks. U.S. long-distance carrier MCI Communications Corp. chose Nortel to demonstrate a first-of-its-kind 125-mile fiber-optic pipeline in Texas that delivers high-speed communications. BC TEL Mobility selected Nortel to create a digital wireless network that will bring new services and increased flexibility to customers in British Columbia, Canada. Nortel digital networking solutions have also been chosen to bring voice mail and other services to guests at Inter-Continental Hotels and Resorts in fifty-nine countries; to connect 160 defense sites for the Ministry of Defence of the Netherlands; and to offer both conventional and cellular telephone service to millions of people in China. The world's going digital, and Nortel has installed more digital lines than anyone in the world.





information

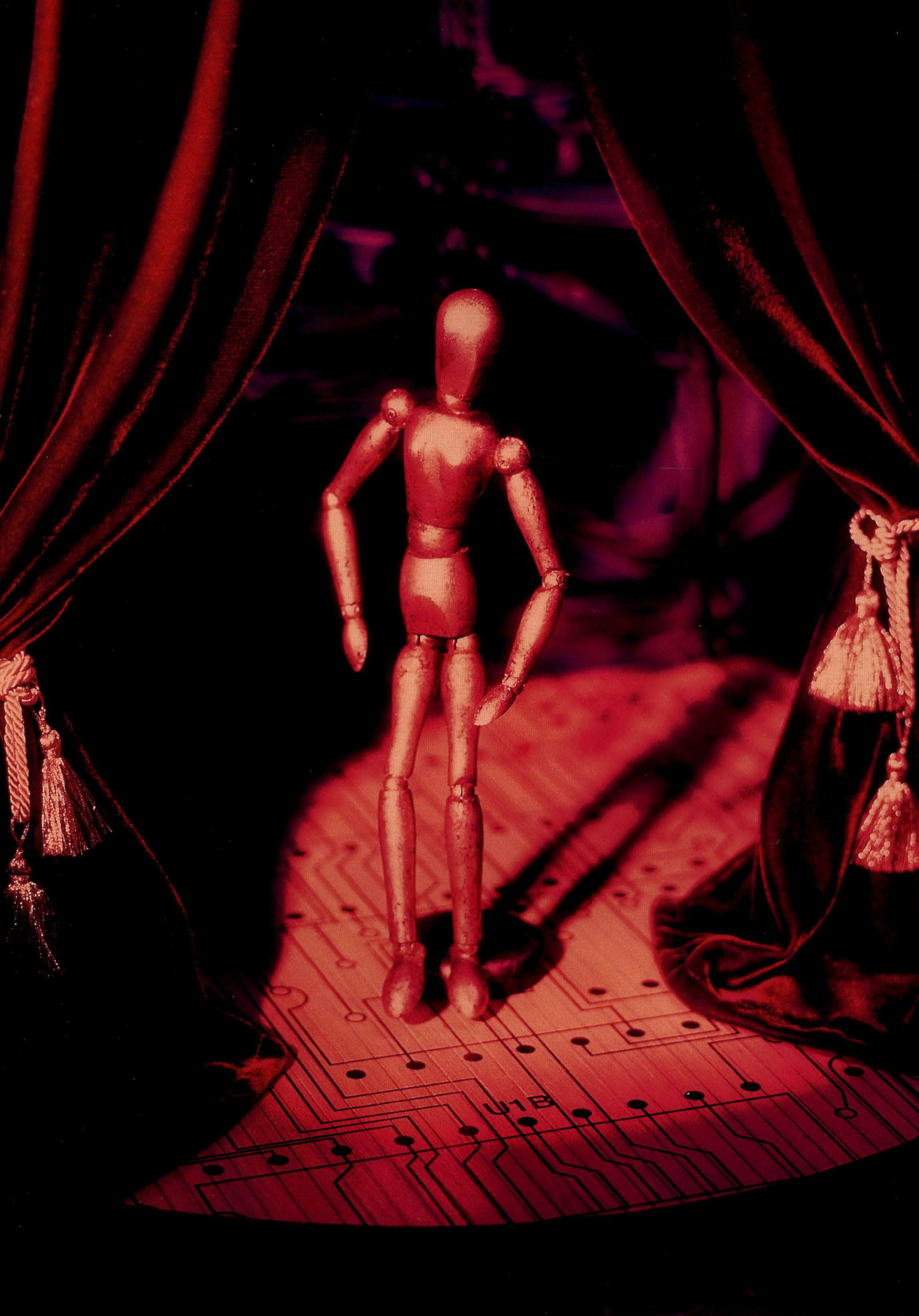
Voice. Data. Image. Video. Information takes many forms—with two or more often combined into multimedia expressions. The dramatic growth of the Internet suggests how information networks will offer ever-increasing utility and value to people everywhere.

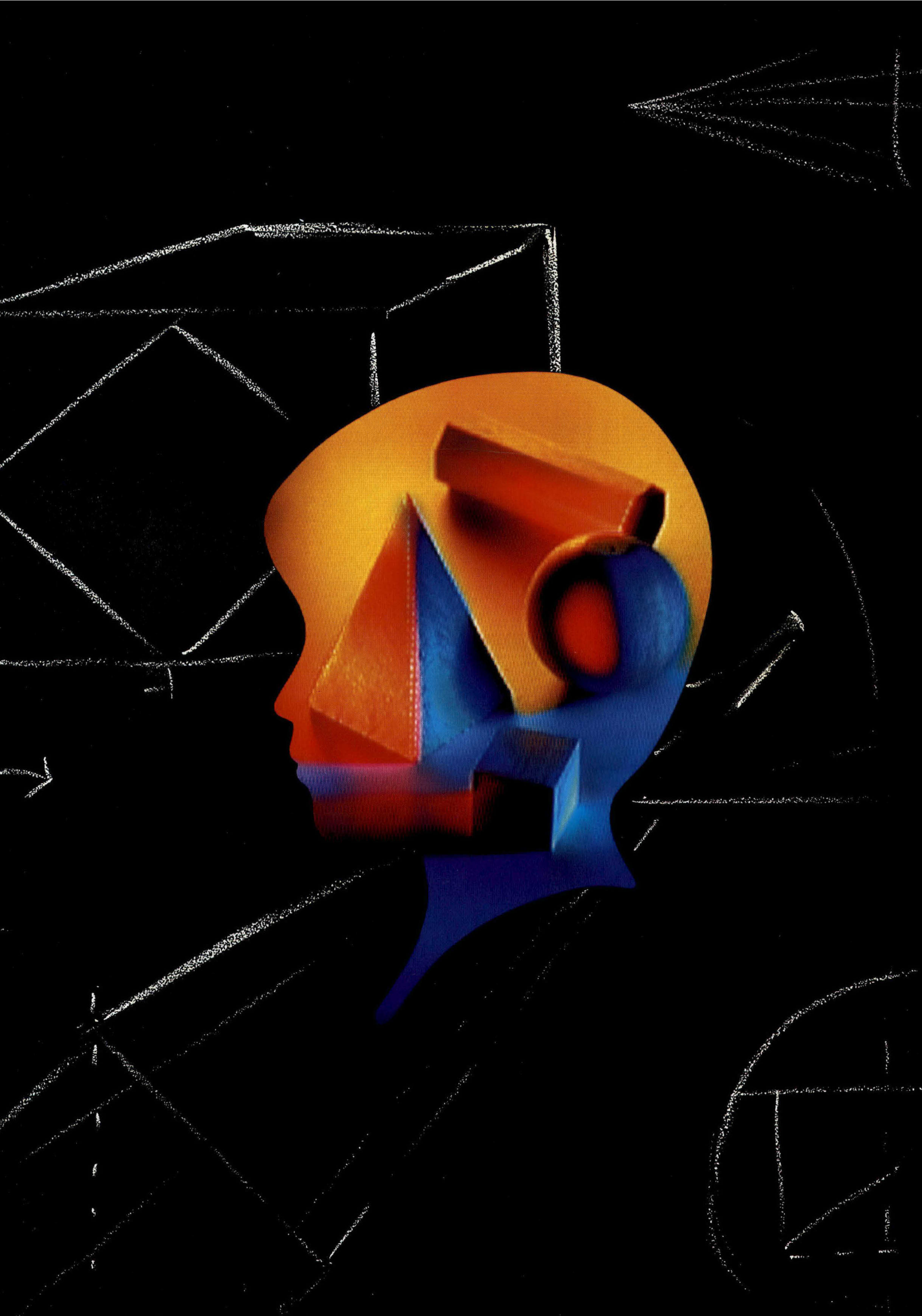
Growth of functional networks such as the Internet has created a need for networking solutions that can help people roam information highways with greater ease. Nortel responded with Rapport, a new product that makes accessing and using the Internet more secure, more reliable, and more productive. For telephone companies, on-line service companies, and other service providers, Rapport creates new revenue opportunities—it allows them to anticipate their customers' needs and deliver high-value services. For businesses, Rapport brings new levels of performance, cost-effectiveness, and security to Internet access in the work place. In the United Kingdom, for example, Bell Cablemedia is using the Rapport switch, along with Nortel Magellan Passport systems, to pilot rapid delivery of advanced multimedia services for businesses, including Internet access and videoconferencing. As the Internet assumes an increasingly important role in electronic commerce, Nortel calls on its breadth of networking expertise to bring new opportunities to providers and users alike.

entertainment

The proliferation of entertainment services—from broadcasting and cable television to myriad on-line services—has sparked fierce competition among video network operators. These network operators are turning to Nortel for new platforms that give them increased reliability, flexibility, and revenues from their networks.

When Cox Communications Inc. decided to improve the way it transports television signals over its cable television system in Phoenix, Arizona, it chose Nortel's broadband networking equipment. This solution lets Cox consolidate five video signal processing centers—each of which had operated with its own specialized equipment. It also will provide a platform for advanced services such as digital music, video games, FM radio, and high-speed data. Using Nortel's broadband equipment, a small Oklahoma-based interexchange carrier now provides live transmission of over 80 percent of all sporting events seen on television in North America, including the 1994 Winter Olympics, the 1994 World Cup Soccer Tournament, the 1995 National Basketball Association All-Star Game, and the 1995 Super Bowl. That same Nortel broadband technology will be used by broadcasters to transmit video at the 1996 Olympic Games in Atlanta, Georgia. Nortel's array of networking solutions lets video network operators broaden their service offerings to give their customers new choices.





education

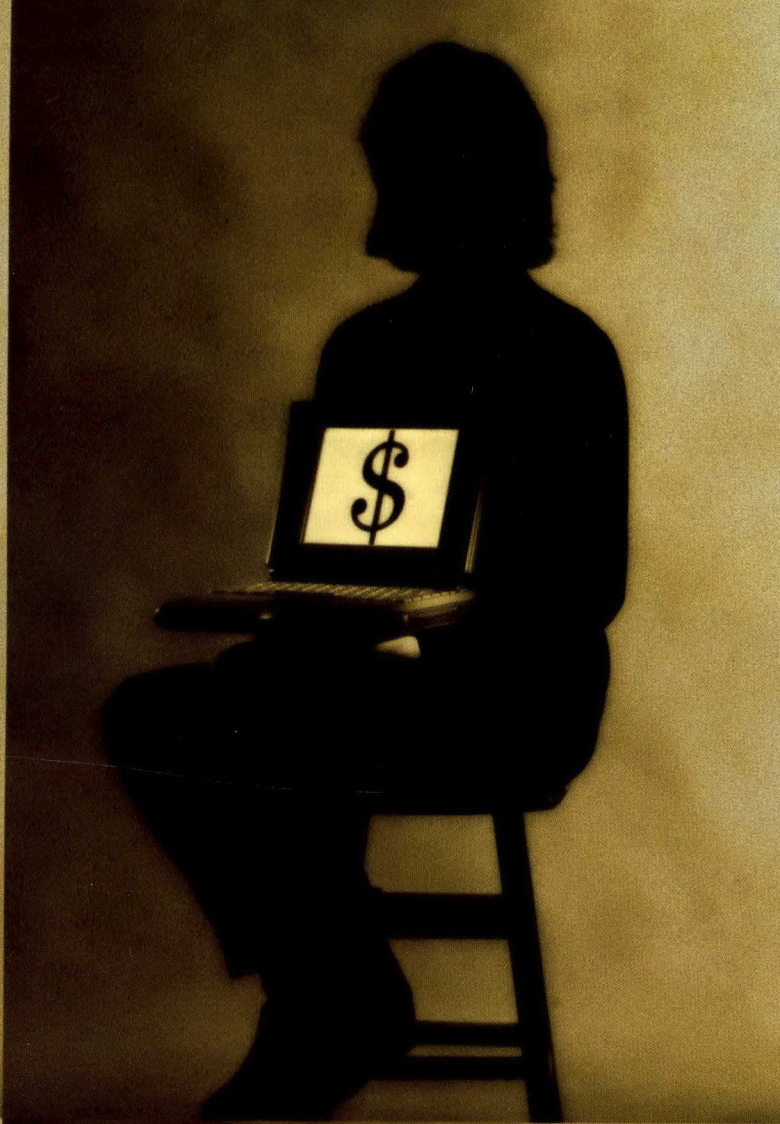
Information technologies are changing how teachers teach and the way students learn. Educators are embracing the opportunities that Nortel's "Integrated Community Networks" offer to enrich courses, reach students in remote locations, and perform administrative duties more efficiently.

Thirteen U.S. school districts in southwestern Virginia are using cameras, monitors, and high-speed telephone links to improve the quality of education in remote and economically disadvantaged regions of the state. With Nortel technology, the Southwest Virginia Education and Training Network is helping more than seventy teachers connect with one another, with area colleges, and with other networks to offer richer and more varied courses. Electronic links let these schools overcome the limitations of their distance, and involve students by making it easier for them to see, participate, and interact with each other. Educators, too, make special use of the network to hold meetings and conduct training sessions. Better teaching, easier learning—Nortel makes it possible.

business

Digital networks are creating a new global economy, where value is based on the exchange of digital information, rather than hard currency. To compete and prosper, businesses everywhere demand faster, feature-rich communications networks, and they are turning to Nortel for solutions that will fuel their growth and success.

S.W.I.F.T., the Society for Worldwide Interbank Financial Telecommunication, relies on Nortel's advanced data networking technology to let member institutions around the world transmit and receive international payments, statements, and other financial transactions securely and reliably. And in Mexico, when Avantel—a joint venture between MCI and Banco Nacional de Mexico—wanted to boost the country's business development and encourage investment, it found Nortel's product offerings in switching and broadband the best solution for building a national long-distance network. By August 1996, this high-speed, fiber-optic network is expected to serve many of Mexico's major business centers and link more than fifty cities. On the other side of the world, New T&T Hong Kong Limited picked Nortel to build a fully digital, fiber-optic network that will bring businesses innovative domestic and international voice and data services. New T&T's network is designed to incorporate advanced capabilities made possible by new technologies. In business, Nortel's product diversity is helping companies realize their vision of making a multimedia call as easily as using the telephone.



consider the possibilities

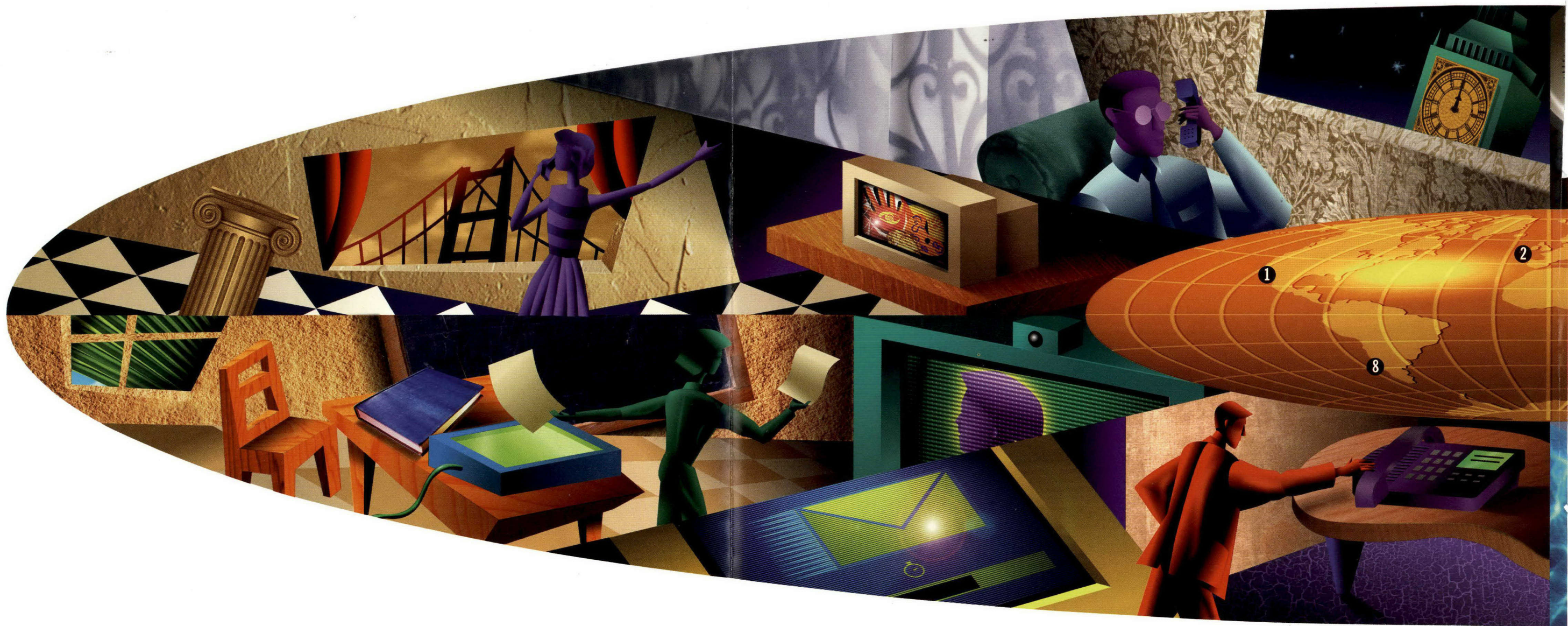
Countless communications each day. Digital connections.

❶ Gloria Clark in San Francisco calls her dad at his flat in London. **"Dad, it's Gloria. Wait until you see the sonogram of the twins. Mom asked the hospital to fax it to you in Hong Kong on Wednesday. I can't wait to be a big sister!"**

Local and long-distance carriers depend on Nortel's networking solutions to connect their customers around the clock and around the world. DMS-100/200 systems route local and long-distance calls. The DMS-250 high-capacity tandem switching system is used in interexchange carrier and enterprise networks, and the DMS-300 system processes international voice and data calls. The DMS portfolio operates with Nortel's Intelligent Network products, such as ServiceBuilder, to allow carriers to customize their networks and deliver advanced services to their customers.

❷ From his London flat, Mr. Clark calls his local travel agent. She passes the information along to the agency's Beijing office. **"I need to fly to Hong Kong after my meetings here. Can you adjust my plane and hotel arrangements?"**

Mr. Clark's call travels over a Nortel-supplied Proximity fixed wireless network that is rapidly bringing advanced telecommunications services and new choices to customers. Nortel also designs and delivers digital cellular networks for mobile services in countless environments, according to different international standards. Thanks to Nortel's advanced call center technology based on Computer Telephony Integration, the travel agent in London can link Mr. Clark's incoming call with customer records for immediate access to his personal data. The system also lets the travel agency manage its flow of incoming calls and generate real-time reports on its call center activities.



❸ Maria in Santiago participates in a videoconference with Gloria, soon to be a big sister of twins, and her classmates in San Francisco. **"Thanks for inviting me, Gloria. I hope my presentation will help us understand and appreciate cultural differences around the world."**

Nortel's Cornerstone Distance Learning networks offer high-quality video and audio, and associated high-speed data delivery for interactive video in educational environments. The same type of network can support business and institutional requirements for premium videoconferencing and highly interactive community requirements such as telecommuting, telemedicine, shopping, and government access.

❹ In Cape Town, Jorge's second line rings while he's sending a file on the Internet to his daughter in Santiago. **"I'll check. Let me just finish sending some information on ethnic dances to my daughter Maria. She's presenting to a group of California students."**

Nortel's Rapport Dialup Switch is among a line of new products that addresses the growing Internet market by making Internet dial-up access reliable and cost-effective. The Rapport Dialup Switch combines functions of the modem, terminal server, access router, and asynchronous transfer mode or frame relay switch into a single, easily managed device. The Rapport family is designed to serve both small locations and high-density communities such as universities and other large-scale campus environments, as well as carriers, value-added networks, and Internet service providers.

a world of networks unfolds

Voice, data, image, video. Anywhere, everywhere.

③ Beijing travel agent calls to make a reservation with the Hong Kong hotel, which verifies Mr. Clark's credit card information on line. **"Mr. Clark will arrive tomorrow morning and wants a non-smoking room. He'll need to use your business facilities for computer and fax."**

Nortel's global ATM (asynchronous transfer mode) and broadband network solutions carry all types of communications at high speeds—including credit card verifications—across a digital network to users. ATM enables voice, data, and video traffic to be combined and switched over a single network, while broadband transport forms a high-capacity backbone that interconnects major network nodes.

④ Hong Kong hotel manager uses Meridian 1 system to alert other hotel staff to Mr. Clark's special requirements. **"Mr. Clark will be expecting a rather unusual fax from a hospital in San Francisco. When it arrives, be sure to get it to him right away."**

Nortel's Meridian 1 system is the best-selling PBX (private branch exchange) in the world. Meridian 1 and Norstar systems offer a wide range of sophisticated voice and data services to address the ongoing needs of business communications and information management. In the hospitality industry, Meridian 1 not only provides connections among hotel staff but also offers guests advanced services such as voice mail and directory capabilities.

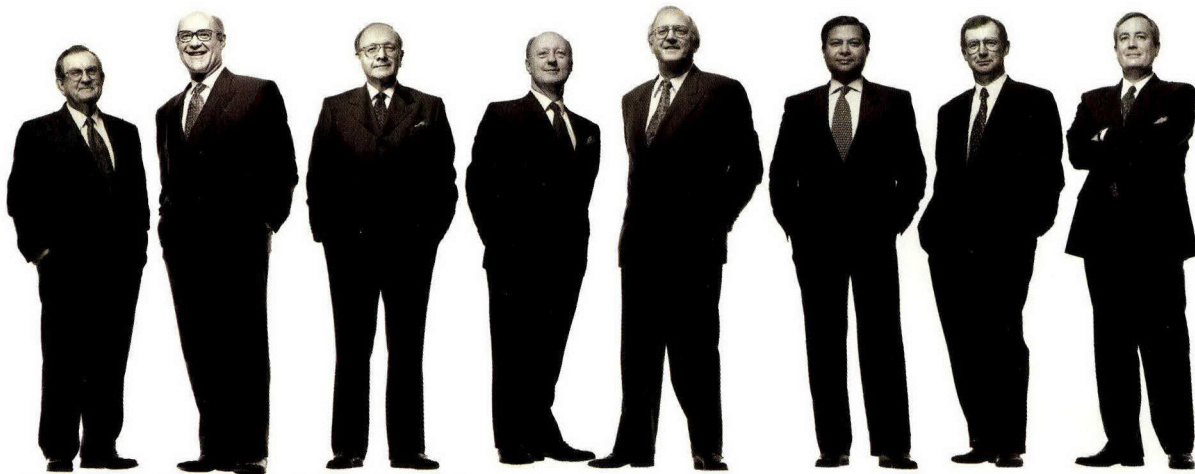


⑥ Hotel manager's boss calls in from his Companion wireless phone while conducting a site inspection of the pool area at a sister hotel in Sydney. **"The new Sydney hotel checks out great. Let's get Jorge in Cape Town in on this call, so we can check on their grand opening."**

Nortel's Companion family of wireless communications systems provides high-quality, two-way, mobile communications in the workplace. It permits walking around an office, campus, or site while making and receiving calls on a lightweight, portable handset. Companion can be used with virtually any existing telephone system and is approved and available around the world.

⑦ Mr. Clark, now in Hong Kong, calls San Francisco and speaks with the doctor. She faxes a sonogram of the Clark twins to the hotel. **"Two healthy babies! What could be better?"**

Nortel's Magellan portfolio of data and broadband multimedia products includes the Magellan Passport enterprise network switch. The Magellan Passport, based on asynchronous transfer mode (ATM) technology, provides corporate users with 1.6 gigabits-per-second broadband multimedia networking capabilities. It's ideal for the new bandwidth-intensive applications such as full motion videoconferencing, multimedia applications, and high-resolution graphics, including blueprints and complex medical x-rays. In this scenario, the hospital used its data network simply to deliver a faxed sonogram of twins.



Chairman and Presidents' Council Members: Don Schuenke, Chairman of the Board, Northern Telecom Limited, **Toronto**; Jean Monty, President and Chief Executive Officer, **Toronto**; Clive Allen, Senior Vice-President and General Counsel, **Toronto**; David Ball, Senior Vice-President and President, Nortel Limited, **London**; Jacques Bérubé, Senior Vice-President and President, Nortel Europe, **Paris**; Clarence Chandran, Senior Vice-President and President, Public Carrier Networks, Research Triangle Park, **North Carolina**; Ian Craig, Senior Vice-President and President, Broadband Networks, **Dallas**; Peter Currie, Senior Vice-President and Chief Financial Officer, **Toronto**



Jim Deas, President, Nortel Asia South Pacific, **Singapore**; Gary Donahue, Senior Vice-President and President, Nortel CALA, **Miami**; Rick Faletti, Senior Vice-President and President, Multimedia Communication Systems, **Dallas**; Brian Hewat, Executive Vice-President, **Ottawa**; Jérôme Huret, Senior Vice-President, Strategy and International Development, Nortel World Trade, **London**; Margaret Kerr, Senior Vice-President, Environment, Ethics, and Quality, **Toronto**; Jim Long, Executive Vice-President and President, Nortel World Trade, **London**; Don McCreesh, Senior Vice-President, Human Resources, **Toronto**; Yoshi Minegishi, President, Northern Telecom Japan Inc., **Tokyo**



John Roth, Chief Operating Officer and President, Nortel North America, **Toronto**; Gedas Sakus, Senior Vice-President and President, Nortel Technology and Chairman, Bell-Northern Research Ltd., **Toronto**; Elliot Schreiber, Senior Vice-President, Communications, **Toronto**; Wes Scott, Executive Vice-President, Corporate, **Toronto**; George Smyth, Senior Vice-President and President, Nortel Technology, World Trade, **London**; Dave Twyver, Senior Vice-President and President, Wireless Networks, **Dallas**; David Winfield, Senior Vice-President, Government Relations, **Toronto**; Philip Yu, Senior Vice-President and Chairman and Chief Executive Officer, Nortel China, **Beijing**

Northern Telecom (Nortel) starts the second half of the nineties with a strong management team and a clear strategy for the future.

As our 1995 Annual Report demonstrates, Nortel is working closely with our customers across the globe to realize our vision of "A World of Networks" and the many opportunities it presents. Already, telecommunications carriers, service providers, and users around the world are reaping the benefits of digital networks.

Nortel's new strategy culminated three years of effort to refocus our corporation. Based on our vision of the future of telecommunications, we have redefined our markets, our portfolio, and our customers.

No longer just a leader in digital switching, Nortel is now positioned as a global leader in designing, building, and integrating digital networks. We have broadly expanded our digital offerings beyond public carrier companies to global private enterprises and companies of all shapes and sizes, as well as markets in wireless communications, entertainment, and education. And we have expanded our reach to voice recognition and multimedia communications.

"A World of Networks," our vision for global communications, recognizes that our customers want more than boxes. They expect us to take a network view and offer a range of digital solutions supporting leading-edge communications. They want a broad range of sophisticated network offerings that help them succeed. This is where we must excel to maintain industry leadership.

As demand grows for mobile, interactive, and multimedia networks, Nortel gives its customers added value based on: our leadership in digital networks of all kinds, our increasing international reach and global presence, and the breadth of our product portfolio.

We believe we are the only corporation that can offer all three of these.

Many things have changed at Nortel, but our fundamental commitments have not:

We're committed to being a leader of change at a time when our customers are going through dramatic changes.

We're committed to creating value as the basis for customer satisfaction. Sharpening our focus on customer satisfaction is the central element of our strategy. Our commitment to customer satisfaction has shown strong results in 1995 and serves as the foundation for further value creation to our customers.

We're committed to being a growth corporation organized for innovation. We're decentralizing to ensure our research facilities, our sales and marketing organizations, and our lines of business are close to markets, customers, and new opportunities. We have brought all of Nortel's technology resources together under the Nortel banner. This includes advanced design and product development groups at all Nortel Technology sites around the world.

We're committed to being a multi-technology corporation—switching, radio frequency, high-speed transmission, network management, voice recognition, frame relay and cell switching, computer/telephony interface, automatic call distribution, operator services systems, and the list goes on. In 1995, we invested a record \$1.6 billion in research and development, or 14.8 percent of revenues.

We're committed to the globalization of Nortel by investing outside North America. We're working to increase revenues outside the United States and Canada to 50 percent of total revenues by the end of the 1990s. They reached 39 percent at the end of 1995, up from 32 percent in 1994.

Last year, we began reaping the fruits of our efforts to build Nortel with strong order and revenue growth, rejuvenated profitability, and stronger relationships with our customers.

Strategically, we exited the cable manufacturing business to concentrate on our "networking" core competencies. We also expanded our network of international alliances and joint ventures. These give us a technology boost, minimize costs, and accelerate our entry into new markets.

We added two new joint ventures in China. In Europe, we launched Nortel Dasa, our German joint venture with Daimler-Benz Aerospace, and Sixtel, our joint venture with Olivetti, to distribute and service our products and solutions in Italy. We also announced alliances with Hewlett-Packard, Qualcomm, Shiva, ANTEC, Fore Systems, NB Tel, and Cabletron. These relationships strengthen our ability to generate new revenues and serve new and traditional customers.

In 1992, non-traditional public carrier network operators or emerging industry players accounted for 54 percent of our revenues. Three years later, that increased to 68 percent.

And customer diversity is increasing as we expand our presence in the growth markets of enterprise, wireless, and broadband.

The good news for our investors, employees, and other stakeholders is that changes in the world telecom industry, such as converging technologies, deregulation, and globalization, indicate new and exciting revenue opportunities for Nortel and our customers.

We also achieved significant improvement in employee satisfaction in 1995. Employee satisfaction is a priority because it is inextricably linked with our ability to deliver customer satisfaction. We invested 2.6 percent of the payroll, or \$60 million, in employee training and development. We focused on communicating with our employees, both as part of our corporation's 100th anniversary celebration and as an essential ingredient in our strategy for the future.

Employee satisfaction is also important because we have to compete globally for qualified, talented people motivated to help our corporation excel. At Nortel, we are fortunate to have excellent people who are creating our future. That future depends on engaging and focusing every mind in the corporation on customer value and customer satisfaction. These are the foundations for our second century.

We would also like to express our gratitude to our shareholders for their continuing support of our corporation and to note that in April 1995, Robert St. Clair Hurlbut did not stand for re-election to the Northern Telecom Board of Directors, due to the eligibility guidelines. Mr. Hurlbut has been a director of the corporation since 1972, and we thank him for his many years of service and contributions to the success of Northern Telecom.

With sadness and appreciation for their many contributions to the corporation, we would also like to note the recent deaths of two former chairmen, colleagues, and friends, Walter F. Light and Robert C. Scrivener. We owe much of our current success in digital networking and globalization to these two leaders.

Our 1995 shareholder report asks "what's possible?" for today and tomorrow. At Nortel, we believe the possibilities are many. Our plans are ready. Our fundamentals are sound. We believe we have a winning strategy. We are proudly building on past achievements. And, with our customers, we're creating "A World of Networks." Our 1995 results were strong, and we are starting our second century with determination, confidence, and a total commitment to being the leader in providing digital network solutions and services.



Jean C. Monty
President and Chief Executive Officer
Northern Telecom Limited
February 29, 1996



Donald J. Schuenke
Chairman of the Board
Northern Telecom Limited

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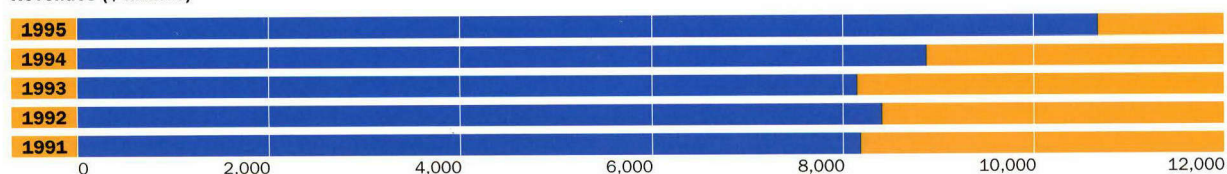
Corporate Listings

Financial Highlights

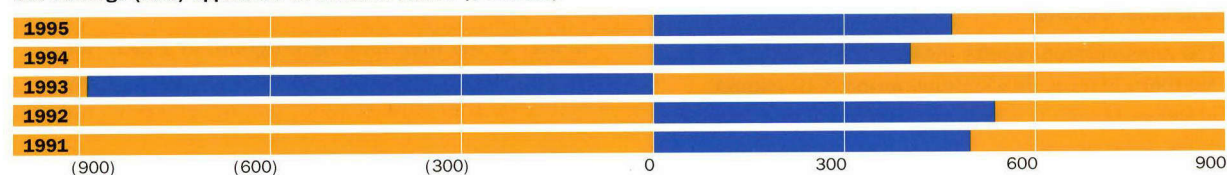
Millions of dollars except per share figures	1995	1994	1993
Revenues	\$10,672	\$8,874	\$8,148
Net earnings (loss) applicable to common shares	469	404	(884)
Earnings (loss) per common share	1.85	1.60	(3.54)
Dividends per common share	.42	.36	.36
Common shareholders' equity	3,798	3,355	3,014
Working capital	2,070	2,160	665
Capital expenditures	577	389	471
Research and development expense	1,579	1,156	1,040
Common shares outstanding (as at December 31, in millions)	254	253	251
Average common shares outstanding (in millions)	254	252	250
Common shareholders (as at December 31)	9,521	10,298	10,654
Employees (as at December 31)	63,715*	57,054	60,293

All dollar amounts in this annual report are in U.S. dollars unless otherwise stated.
 *Includes Nortel's proportionate share of the employees of Matra Communication S.A.S.

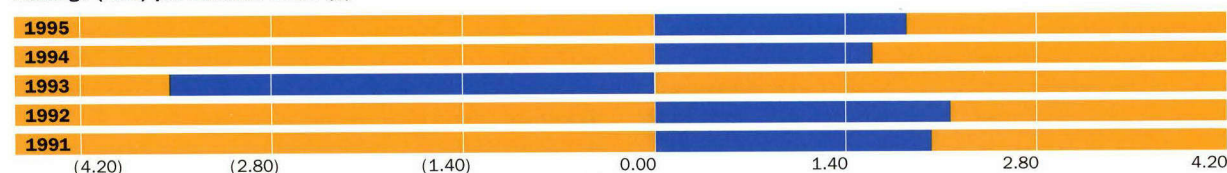
Revenues (\$ millions)



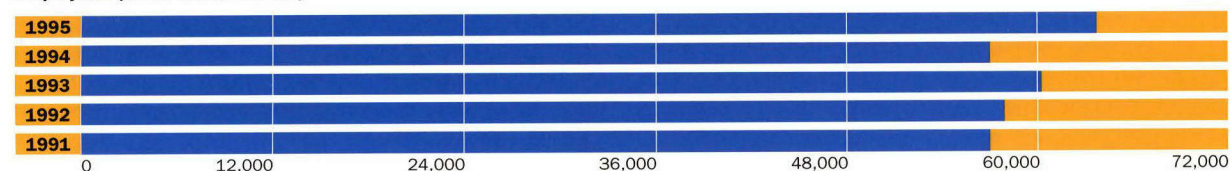
Net earnings (loss) applicable to common shares (\$ millions)



Earnings (loss) per common share (\$)



Employees (as at December 31)



Financial Review

The following provides additional analysis as to Nortel's operations and current financial situation. This commentary is supplementary to and should be read in conjunction with the consolidated financial statements which begin on page 38.

Results of Operations

Consolidated revenues in 1995 were \$10.67 billion, an increase of 20 percent over revenues of \$8.87 billion in 1994, which were up 9 percent from revenues of \$8.15 billion in 1993. The increase in 1995 revenues was attributable to a net volume increase of approximately 17 percent and the net effect of dispositions and consolidations of approximately 6 percent, partially offset by price reductions of approximately 3 percent. The increase in 1994 revenues was attributable to a net volume increase of approximately 17 percent, partially offset by the net effect of dispositions of approximately 5 percent and price reductions of approximately 3 percent. Net earnings applicable to common shares in 1995 amounted to \$469 million (\$1.85 per common share), up from net earnings applicable to common shares of \$404 million (\$1.60 per common share) in 1994. Net earnings applicable to common shares were calculated after dividends on preferred shares of \$4 million for both 1995 and 1994. Gains related to the disposition of the optical fiber and fiber cable manufacturing facility in Saskatoon, Saskatchewan, of \$72 million after tax (\$.29 per common share) and the disposition of the connection, protection, and optical fiber management systems businesses of \$28 million after tax (\$.11 per common share) were included in the results for 1994. Net earnings applicable to common shares in 1995 also reflected improved operating earnings and decreased interest expense, partially offset by lower investment and other income.

The consolidated results include the results of Netas-Northern Electric Telekomünikasyon A.S. (Netas) effective March 1, 1993, and TTS Meridian Systems Inc. (TTS) effective July 1, 1993. Effective August 1, 1993, the cellular infrastructure systems sales and service activities within the partnership, MOTOROLA NORTEL Communications Co. (which had been accounted for under the equity method) returned to the partners, Motorola Inc. and Nortel. The assets and businesses of STC Limited (STC), except for those of STC Submarine Systems, were acquired by STC's parent company, Nortel Limited (formerly Northern Telecom Europe Limited), effective July 1, 1993. The STC Submarine Systems business was sold effective January 1, 1994. Effective January 12, 1994, Nortel sold its semiconductor manufacturing facility in San Diego, California, to SGS-THOMSON Microelectronics Inc. On February 28, 1994, Nortel completed the sale of its optical fiber and fiber cable manufacturing facility in Saskatoon, Saskatchewan. Effective May 1, 1994, Nortel sold Northern Telecom

Finance Corporation (NTFC), the wholly owned finance subsidiary in the United States, to General Electric Capital Corporation. Effective December 30, 1994, Nortel sold the connection, protection, and optical fiber management systems businesses to Siecor Corporation. Effective January 1, 1995, Nortel proportionately consolidated the results of its joint ventures, as required under Canadian generally accepted accounting principles. Prior to January 1, 1995, the joint ventures were accounted for by the equity method. A substantial portion of the amounts proportionately consolidated relate to the operations of Matra Communication S.A.S. (Matra Communication). Earnings per common share were not affected by the proportionate consolidation. The net effect of these dispositions and the proportionate consolidation of Matra Communication was to increase revenues by approximately \$564 million for 1995. The proportionate consolidation of the other joint ventures does not have a material impact on revenues.

On July 21, 1993, the Corporation announced \$1.16 billion in special charges for a restructuring program (\$409 million pre-tax), a new software initiative (\$252 million pre-tax), and a goodwill write-down (\$500 million). As at December 31, 1995, the software initiative was completed and the restructuring program was substantially completed. The restructuring and software provisions as at December 31, 1995, were \$38 million (primarily related to programs which were in the final phases) and nil, respectively. As expected, the benefits of the restructuring program began to materialize in the second half of 1994 and continued throughout 1995 and were reflected in the results for the second half of 1994 and all of 1995, particularly in cost of revenues and selling, general, and administrative expense.

As part of the restructuring program, in 1995, Nortel phased out its switching networks manufacturing facility in Brampton, Ontario, and relocated the surface mount manufacturing operations to Brockville, Ontario. On December 20, 1995, Nortel announced the signing of an agreement providing for the sale to Cable Design Technologies (CDT) Canada Inc., since renamed NORDX/CDT, Inc. (NORDX/CDT), of Nortel's structured wiring and copper wire and cable business, which primarily encompassed operations in the Laurentien and Lachine facilities in Montréal, Québec, and operations in a facility in Kingston, Ontario. This transaction became effective February 2, 1996.

Product Line Revenues

Revenues were up substantially in 1995 compared to 1994, primarily as a result of higher revenues for enterprise networks (previously named multimedia communication systems), wireless networks (previously named wireless systems), switching networks (previously

named central office switching), and broadband networks (previously named transmission systems), partially offset by lower other revenues (previously named cable and other revenues). Software sales were up substantially for 1995, as compared with 1994. Revenues increased in 1994 as compared with 1993, due to higher wireless networks, enterprise networks, broadband networks, and switching networks revenues, partially offset by lower other revenues. Software sales for 1994 were down slightly as compared with 1993.

Switching networks revenues increased by 8 percent in 1995 to \$4.23 billion (40 percent of total revenues) from \$3.93 billion (44 percent of total revenues) in 1994, which increased by 5 percent from \$3.76 billion (46 percent of total revenues) in 1993. The increase in 1995 was due to substantially higher sales in Europe and the Caribbean and Latin America (CALA), partially offset by substantially lower sales in Asia Pacific and decreased sales in Canada. Switching networks revenues in the United States were essentially flat in 1995 compared with 1994. The higher European switching networks revenues in 1995 were mainly due to the proportionate consolidation of Matra Communication. The increase in 1994 was due primarily to higher demand in the United States, Asia Pacific, and CALA, partially offset by much lower sales in Canada and slightly lower sales in Europe. North American switching revenues are expected to continue to be

adversely impacted by the shift in capital spending by customers away from switching networks to emerging products, such as wireless networks, enterprise networks, and broadband networks.

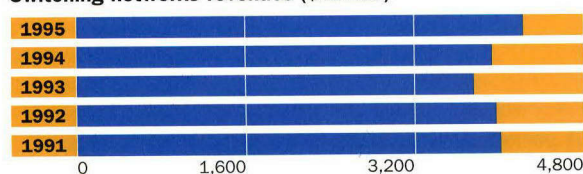
Enterprise networks revenues increased by 32 percent in 1995 to \$3.25 billion (30 percent of total revenues), from \$2.47 billion (28 percent of total revenues) in 1994, which was 11 percent higher than \$2.22 billion (27 percent of total revenues) in 1993. The increase in 1995 was due to substantially stronger sales in Europe, attributable mainly to the proportionate consolidation of Matra Communication in 1995, significantly higher sales in the United States, substantially higher sales in Asia Pacific, and increased sales in Canada, partially offset by slightly lower sales in CALA. The increase in 1994 was due to higher demand, especially in the United States and Europe, partially offset by slightly lower revenues in Canada.

Wireless networks revenues increased by 74 percent to \$1.55 billion (15 percent of total revenues) in 1995 from \$893 million (10 percent of total revenues) in 1994, which increased by 89 percent from \$473 million (6 percent of total revenues) in 1993. The increase in 1995 was due to substantially stronger sales in Europe, the United States, Asia Pacific, and Canada. Wireless networks revenues in CALA were essentially flat in 1995 compared with 1994. The increase in European wireless networks revenues in 1995 was mainly due to the proportionate consolidation of Matra Communication. The increase in 1994 was due to higher sales in the United States, CALA, and Asia Pacific, partially offset by lower sales in Canada and Europe.

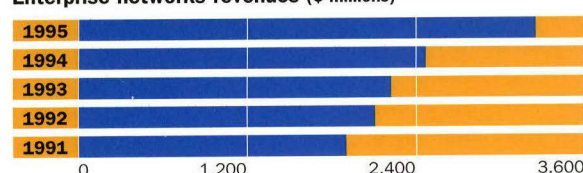
Broadband networks revenues were \$1.11 billion (10 percent of total revenues) in 1995, up 19 percent from \$933 million (11 percent of total revenues) in 1994, which increased 24 percent from \$753 million (9 percent of total revenues) in 1993. The increase in 1995 was a result of substantially higher sales in Asia Pacific, significantly higher sales in the United States, and substantially higher sales in CALA. Broadband networks revenues in Europe and Canada were essentially flat in 1995 compared with 1994. The increase in 1994 was due to higher sales in the United States, Europe, CALA, and Asia Pacific, partially offset by lower sales in Canada.

Other revenues, comprising cable and outside plant revenues, revenues from other products, interest income of the finance subsidiaries, and research and development performed on behalf of customers, were \$529 million (5 percent of total revenues) in 1995, compared with \$651 million (7 percent of total revenues) in 1994 and \$942 million (12 percent of total revenues) in 1993. The decreases in 1995 and 1994 were due primarily to the sales of businesses in 1994.

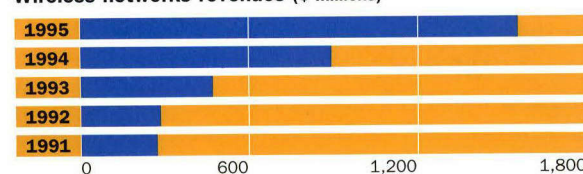
Switching networks revenues (\$ millions)



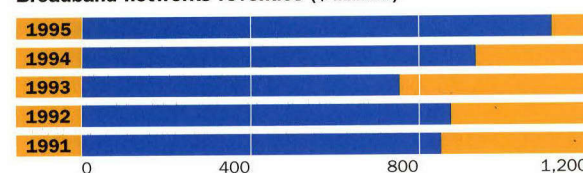
Enterprise networks revenues (\$ millions)



Wireless networks revenues (\$ millions)



Broadband networks revenues (\$ millions)



Geographic Revenues

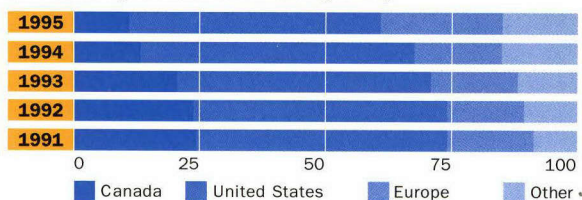
Revenues (based on the location of the customer rather than the location of the selling organization) increased in all markets in 1995 when compared to 1994 except Canada, which was essentially flat, and increased in all markets except Canada in 1994. Revenues from certain geographic locations have been reclassified to conform with the current year's presentation. As a result, prior disclosure with respect to geographic revenues may not be consistent with the restated geographic revenues.

Revenues in the United States were \$5.35 billion (50 percent of total revenues) in 1995, up 10 percent from \$4.85 billion (55 percent of total revenues) in 1994, which was up 17 percent from \$4.13 billion (51 percent of total revenues) in 1993. This increase in 1995 was primarily due to substantially higher sales to other customers (primarily comprising sales of wireless networks and enterprise networks to independent telecommunications companies), significantly higher sales to interexchange carriers, increased sales to telecommunications operating companies other than regional holding companies, slightly higher sales to regional holding companies, significantly higher sales to distributors other than interexchange carriers, and increased sales to governments. The increase in 1994 resulted primarily from higher sales to interexchange carriers, other customers, and regional holding companies, partially offset by lower sales to telecommunications operating companies other than regional holding companies.

The United States Telecommunications Act of 1996 (the 1996 Act), comprehensive legislation amending the Communications Act of 1934, became law on February 8, 1996. The purpose of the 1996 Act is to stimulate competition in all segments of the telecommunications industry in the United States. Nortel expects the 1996 Act to have a positive impact on telecommunications equipment manufacturers generally. At this stage, it is difficult to assess with any precision the impact of the 1996 Act on Nortel's overall operations.

Nortel's principal competitor in the United States has been AT&T Corp. (AT&T). In September 1995, AT&T announced that it would separate into three publicly traded companies, including Lucent Technologies Inc. (Lucent), a communications systems company. While it is difficult to assess the impact of the AT&T reorganization at this time, Nortel does not expect that the establishment of Lucent will have a material impact on its overall operations.

Revenues by customer location (percent)



Revenues in Europe (including Africa, the Commonwealth of Independent States, and the Middle East) were \$2.59 billion (24 percent of total revenues) in 1995, up 64 percent from \$1.58 billion (18 percent of total revenues) in 1994, which increased 12 percent from \$1.41 billion (17 percent of total revenues) in 1993. Revenues in Europe were up substantially in 1995 compared with 1994, due mainly to the proportionate consolidation of Matra Communication in 1995, substantially increased sales of wireless networks and switching networks, significantly increased sales of enterprise networks, and slightly increased sales of broadband networks, partially offset by significantly decreased sales of other products. The increase in 1994 revenues was primarily due to higher sales of enterprise networks and broadband networks, partially offset by the sale of the STC Submarine Systems business and lower switching networks and wireless networks revenues.

Revenues in Canada were \$1.14 billion (11 percent of total revenues) in 1995, which were flat when compared to revenues of \$1.14 billion (13 percent of total revenues) in 1994, which decreased 31 percent from \$1.65 billion (20 percent of total revenues) in 1993. In 1995, significantly higher sales to Bell Canada and other BCE Inc. affiliates were offset by significantly decreased sales to other Canadian customers. The decrease in 1994 was due to considerably lower capital spending by Bell Canada and other Canadian telecommunications operating companies.

Revenues in other markets, comprising the Asia Pacific and CALA markets, were \$1.60 billion (15 percent of total revenues) in 1995, up 23 percent from \$1.30 billion (14 percent of total revenues) in 1994, which increased 36 percent from \$957 million (12 percent of total revenues) in 1993. Revenues in Asia Pacific in 1995 increased significantly from 1994 primarily due to substantial increases in all product line revenues except switching networks revenues, which decreased substantially. Revenues in CALA in 1995 increased substantially from 1994 primarily due to substantial increases in switching networks revenues, wireless networks revenues, and broadband networks revenues, partially offset by substantially decreased sales of other products and slightly decreased sales of enterprise networks. Sales in CALA were up substantially in 1994 as compared with 1993, primarily due to significantly higher demand for wireless networks products. Sales in Asia Pacific were also up in 1994 as compared with 1993, principally due to increased switching networks revenues in the People's Republic of China and increased wireless networks revenues, partially offset by the reduction of other revenues resulting from the sale of the STC Submarine Systems business.

Revenues (based on the location of the selling organization rather than the location of the customer) increased in all locations in 1995 except Canada and increased

in all locations except Canada and Europe in 1994. Revenues from the United States were \$5.81 billion (54 percent of total revenues) in 1995, up 7 percent from \$5.44 billion (61 percent of total revenues) in 1994, which were up 23 percent from \$4.43 billion (54 percent of total revenues) in 1993. Revenues from Canada were \$1.46 billion (14 percent of total revenues) in 1995, down 1 percent from \$1.48 billion (17 percent of total revenues) in 1994, which decreased 17 percent from \$1.78 billion (22 percent of total revenues) in 1993. Revenues from Europe were \$2.57 billion (24 percent of total revenues) in 1995, up 70 percent from \$1.51 billion (17 percent of total revenues) in 1994, which decreased 7 percent from \$1.63 billion (20 percent of total revenues) in 1993. The increase in European revenues was primarily due to the proportionate consolidation of Matra Communication. Revenues from other locations were \$830 million (8 percent of total revenues) in 1995, up 83 percent from \$453 million (5 percent of total revenues) in 1994, which were up 48 percent from \$307 million (4 percent of total revenues) in 1993.

Gross Profit

Gross profit in 1995 increased by \$1.02 billion to \$4.29 billion from \$3.27 billion in 1994, which was \$320 million higher than \$2.95 billion in 1993. The gross margin in 1995 was 40.2 percent of revenues compared with 36.8 percent in 1994 and 36.2 percent in 1993.

The 1995 increase in gross profit was primarily the result of increased sales in all product lines except other revenues and improved gross margins in switching networks, enterprise networks, and broadband networks, partially offset by lower gross margins on sales of wireless networks and lower gross margins on Matra Communication sales. Nortel's wireless networks organization continues to incur start-up costs as it penetrates new markets. The actions taken as part of the restructuring program have provided benefits contributing to stronger gross margins.

The 1994 increase in gross margin was primarily the result of increased sales of wireless products, which had higher margins, and higher margins for broadband sales, partially offset by pricing pressures on switching networks, particularly in the United States, and slightly lower software sales. Enterprise networks margins were essentially flat and switching networks margins were down slightly. Margins on other revenues decreased significantly primarily due to the sale of the STC Submarine Systems business. In 1994, Nortel began to realize the benefits of

the actions taken as part of the restructuring and this was reflected in the gross margin.

Although pressures on gross margin continue, Nortel has been able to offset such pressure through the sales of higher margin products and the benefits of the restructuring program. Nortel has taken steps to reduce excess capacity and to rationalize and consolidate manufacturing facilities. Gross margin is favorably affected by software sales due to the higher margin associated with such sales. However, as switching networks sales continue to decline as a percentage of overall sales, gross margin may be negatively impacted.

Selling, General, and Administrative (SG&A) Expense

SG&A expense in 1995 of \$1.92 billion (18.0 percent of total revenues) increased by 14 percent from \$1.68 billion (18.9 percent of total revenues) in 1994, which increased by 5 percent from \$1.60 billion (19.6 percent of total revenues) in 1993. This decrease in SG&A as a percentage of revenue in 1995 was a result of cost containment efforts and the benefits of the restructuring program, partially offset by the proportionate consolidation of Matra Communication. The absolute dollar increase in SG&A expense for 1995 compared with 1994 reflects the proportionate consolidation of Matra Communication and the funding of international market and product development, particularly in the wireless and broadband networks businesses, partially offset by the benefits realized as a result of the restructuring program. The increase in the 1994 expense reflects the inclusion of Netas and TTS for the full year.

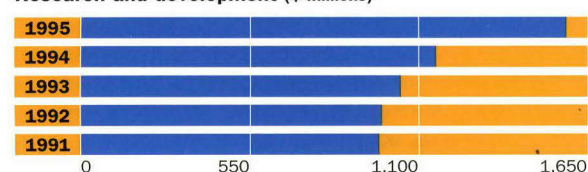
Research and Development (R&D) Expense

Total R&D expense, including R&D costs incurred on behalf of others, was \$1.75 billion, \$1.30 billion, and \$1.22 billion for 1995, 1994, and 1993, respectively. Nortel's R&D expense in 1995 was \$1.58 billion (14.8 percent of total revenues), compared with \$1.16 billion (13.0 percent of total revenues) in 1994, and \$1.04 billion (12.8 percent of total revenues) in 1993. The level of investment in all three years reflects ongoing programs for new products, process development, advanced capabilities, and services for a broad array of existing products across all network businesses, but primarily in the wireless, enterprise, and broadband networks businesses. Effective 1994, certain costs, primarily representing product design verification and testing activities, which had been recorded principally as cost of revenues, have been reclassified to R&D expense. Comparative amounts for 1993 have been restated accordingly.

Goodwill Amortization

Goodwill amortization charged to operations, including that in equity in net earnings of associated companies, was \$39 million, \$23 million, and \$46 million for 1995, 1994, and 1993, respectively. Most of the goodwill

Research and development (\$ millions)



amortization in 1995 reflects the increased investment in Matra Communication in 1994 to 50 percent ownership, which is being amortized over twenty years, and the acquisition of the initial 27 percent of STC PLC in 1987 and the remaining 73 percent of STC PLC in 1991, which is being amortized over forty years. In 1993, with the prospect of continuing weakness in the European economic environment and the Corporation's expectation for lower growth in STC's European sales and earnings, \$500 million of the goodwill associated with the investment was written off. The sale of the STC Submarine Systems business, effective January 1, 1994, further reduced goodwill by approximately £500 million (\$740 million). In 1995, goodwill associated with the investments in Nortel Matra Cellular SCA, Netas, Prism Systems Inc., Advanced Semiconductor Manufacturing Corporation of Shanghai, Sixtel S.p.A., and TTS was also amortized. In 1994, goodwill associated with STC, Matra Communication, Nortel Matra Cellular SCA, Netas, and TTS was amortized.

Investment and Other Income—Net and Interest Expense

Investment and other income – net, including equity in net earnings of associated companies, was \$114 million in 1995, \$217 million in 1994, and \$77 million in 1993. Investment and other income – net has been restated to conform with the current year's presentation. The decrease in 1995 was primarily a result of an insignificant foreign exchange loss, as compared with substantial foreign exchange gains resulting from the consolidation of Netas for 1994. Significantly higher interest income earned in 1995 on cash balances, resulting from the proceeds of disposals of businesses in 1994 and the favorable 1994 operating cash flow performance was offset by substantially lower equity earnings of associated companies. The increase in 1994 was primarily due to significantly higher than traditional levels of foreign exchange gains and interest income attributable to Netas and from interest income on cash balances, resulting from the proceeds of disposals of businesses.

Nortel continues to expand its operations outside of the United States and Canada, and as such, an increasing proportion of its business will be derived from countries outside of the United States and Canada. As a result, fluctuations in foreign currencies may have an impact on Nortel's business and financial results. Nortel endeavors to minimize the impact of such currency fluctuations through its ongoing commercial practices and by attempting to hedge its exposures to such currencies. In attempting to manage this foreign exchange risk, Nortel identifies operations and transactions that may

have foreign exchange exposure, based upon, among other factors, the excess or deficiency of foreign currency receipts over foreign currency expenditures in each of Nortel's significant foreign currencies. Nortel's significant currency flows in 1995 were in United States dollars, Canadian dollars, United Kingdom pounds, and French francs. In 1995, the net impact of foreign exchange fluctuations was insignificant.

Interest expense was \$160 million in 1995, \$188 million in 1994, and \$253 million in 1993. The reduced interest expense for 1995 was primarily a result of repayment of debt owed by Netas and the repayment of corporate debt in 1994, partially offset by the effect of proportionately consolidating Matra Communication, an increased interest rate (set biannually) pursuant to an existing interest rate swap agreement, and the increased use of commercial paper to fund cash requirements. The decrease in 1994 was primarily due to lower debt levels resulting from the use of proceeds from the sales of businesses for the repayment of debt and the repayment of some debt owed by Netas due to positive cash flows, partially offset by additions to long-term debt in 1993.

Income Taxes

The provision for income taxes was \$233 million in 1995, compared with a provision of \$161 million in 1994, and a recovery of income taxes of \$192 million in 1993 (with effective rates of 33.0, 28.4, and 17.9 percent, respectively). The increase in the 1995 tax rate was due to the change in geographic earnings mix and reflects the effect in 1994 of lower rates of income tax expense on the gains related to the sale of the optical fiber and fiber cable manufacturing facility and the sale of the connection, protection, and optical fiber management systems businesses. The income tax expense on operating earnings for 1994 was 29.9 percent.

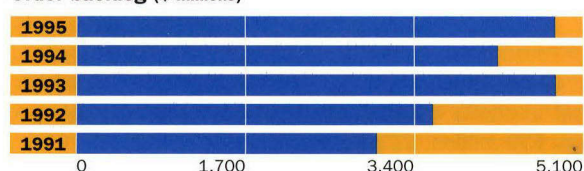
Order Backlog

Order backlog at December 31, 1995, was \$4.82 billion, up 14 percent from the \$4.24 billion of orders on hand at December 31, 1994, which was down 12 percent from the \$4.82 billion of orders on hand at December 31, 1993. The increase in 1995 was due to the proportionate consolidation of Matra Communication in 1995 and increases in CALA and other international markets. Order backlog is being affected by compressed order-to-delivery intervals. The majority of the backlog is scheduled for delivery within twelve months. The decrease in 1994 was primarily due to the sale of the STC Submarine Systems business in 1994.

Liquidity and Capital Resources

Cash and short-term investments of \$202 million at December 31, 1995, decreased by \$857 million, compared with \$1.06 billion at December 31, 1994. Cash used by operating activities in 1995 amounted to \$213 million, compared with cash provided by operating

Order backlog (\$ millions)



activities of \$849 million in 1994, principally due to working capital requirements, primarily receivables and inventories. Nortel continues to focus on working capital as a key component of cash management. Capital expenditures amounted to \$577 million for 1995, an increase of \$188 million from 1994 capital expenditures of \$389 million. Nortel expects its consolidated capital expenditures for total year 1996 to be substantially above 1995 levels. Funds were also used in 1995 to pay for dividends on common and preferred shares of \$111 million. Proceeds on sales of businesses were \$1.64 billion in 1994.

The total debt to total capitalization ratio was 29 percent at December 31, 1995, compared with 29 percent at December 31, 1994, and 43 percent at December 31, 1993. The decrease from December 31, 1993, to December 31, 1994, reflects the utilization of the majority of the proceeds from the disposals of the STC Submarine Systems business, the Saskatchewan optical fiber and fiber cable manufacturing facility, the California semiconductor manufacturing facility, and NTFC, to reduce debt.

In February 1996, the Corporation and Northern Telecom Capital Corporation (NTCC), an indirect wholly owned subsidiary of the Corporation, filed a shelf registration statement with the United States Securities and Exchange Commission related to the offering from time to time by either the Corporation or NTCC of up to \$500 million of debt securities and warrants to purchase debt securities, with the payment of any debt securities offered by NTCC guaranteed by the Corporation. The registration statement has not yet been declared effective. This filing is in addition to the \$500 million of debt securities and warrants to purchase debt securities remaining available to the Corporation under an existing shelf registration statement. The Corporation has also filed with the securities regulatory authorities in each of the provinces of Canada a short form shelf prospectus to issue up to C\$500 million of debt securities and warrants to purchase debt securities of the Corporation under a Canadian shelf program. On April 26, 1995, Nortel entered into five-year and 364-day syndicated credit agreements to permit borrowings in an aggregate amount not to exceed \$1.5 billion, of which \$1.0 billion relates to the five-year agreements and \$500 million relates to the 364-day agreements. The entire amount of these committed facilities remains available. Nortel expects to meet its cash requirements from operations and conventional sources of external financing.

The competitive environment in which Nortel operates increasingly requires the provision of financing in connec-

tion with the purchase of products and services. As a result, Nortel is more frequently required to commit to provide significant amounts of customer financing, particularly in the emerging North American personal communication services market and international markets. Although Nortel has generally been able to place the financing of its products and services with third party lenders, it is anticipated that Nortel may be required to directly support significantly more financing in such markets in the short term, until such financings can be placed with third party lenders. Nortel expects to fund such financings from operations and conventional sources of external financing in the normal course.

On March 10, 1995, Nortel and Daimler-Benz Aerospace AG of Germany announced the formation of a joint venture with equal ownership. The company, Nortel Dasa Network Systems GmbH & Co. KG, commenced operations in the second quarter of 1995. The operations are proportionately consolidated into the financial statements of Nortel. Nortel contributed a major portion of the existing assets of its German subsidiary, Northern Telecom GmbH, to the joint venture, and has funded, and will continue to fund, an equal share of the future cash flow requirements. Nortel does not expect these future funding requirements to be material.

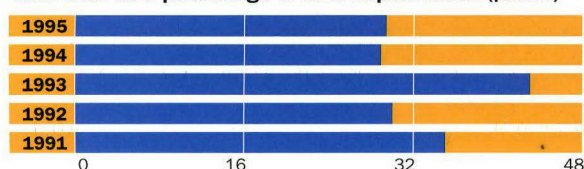
In 1994, Nortel increased its equity participation in Matra Communication such that Nortel and Lagardère Groupe SCA (Lagardère) currently each hold 50 percent of the outstanding share capital of Matra Communication. Lagardère may, under specific circumstances, require Nortel to purchase all or part of its equity participation in Matra Communication at a formula price, currently estimated at approximately 1.7 billion French francs (approximately \$351 million) for all its equity participation, with consideration consisting of a long-term interest-bearing note.

On December 20, 1995, Nortel announced the signing of an agreement providing for the sale to NORDX/CDT of Nortel's structured wiring and copper wire and cable business. This transaction became effective February 2, 1996. Gross proceeds, before closing adjustments, amounted to \$90 million and resulted in no material gain or loss. This transaction is consistent with Nortel's decision to focus its resources on its core product lines.

Legal Proceedings

Certain holders of the Corporation's securities have commenced three class actions in the United States District Court for the Southern District of New York alleging that the Corporation and certain of its officers violated the Securities Exchange Act of 1934 and common law by making material misstatements of, or omitting to state, material facts relating to the business operations and prospects and financial condition of the Corporation. Compensatory and punitive damages are sought in each of the class actions. On July 30, 1993,

Total debt as a percentage of total capitalization (percent)



all three actions were consolidated before a judge of the United States District Court for the Southern District of New York. A Consolidated Amended Complaint was filed by all of the plaintiffs on September 16, 1993. On January 21, 1994, a judge of the United States District Court for the Southern District of New York dismissed the purported class actions without prejudice and allowed the plaintiffs to file a Second Consolidated Amended Complaint by February 25, 1994. On February 18, 1994, the plaintiffs filed the Second Consolidated Amended Complaint. The Corporation and the named officers filed a motion challenging the sufficiency of the Second Consolidated Amended Complaint, which was denied in part and granted in part on August 19, 1994. On September 22, 1994, the Corporation and the named officers filed an Answer to the Second Consolidated Amended Complaint. On February 24, 1995, a judge of the United States District Court for the Southern District of New York issued an order certifying the consolidated action as a class action. The Corporation and the named officers will vigorously defend the consolidated action. At this stage of the consolidated action, the Corporation cannot determine whether the consolidated action will have a material adverse impact on the consolidated financial position or results of operations of the Corporation.

The Internal Revenue Service (IRS) has proposed income tax adjustments to the 1980 through 1985 federal income tax returns of Northern Telecom Inc. (NTI), the Corporation's principal United States subsidiary. NTI has protested these proposed adjustments with the Regional Appeals Office of the IRS and expects to receive a statutory notice of proposed assessment with respect to matters which remain in dispute. The Corporation currently estimates the statutory notice of proposed assessment will propose an additional tax liability of between \$360 million and \$450 million, together with interest at the applicable statutory rates. If a statutory notice of proposed assessment is received, NTI intends to file a petition with the United States Tax Court opposing such proposed additional tax liability. The majority of the proposed additional tax liability involves the timing of income recognition and consequently, if the IRS were to prevail, NTI would be entitled to a refund for later taxable years. After consultation with outside tax counsel and the Corporation's independent accountants, it is management's opinion that additional tax liability, if any, resulting from the proposed income tax adjustments will not have a material adverse impact on the consolidated financial position or results of operations of the Corporation.

Environmental Matters

Nortel, primarily as a result of its manufacturing operations, is subject to numerous environmental laws and regulations and is exposed to liabilities and compliance costs arising from its past and current generating, handling, processing, recycling, storing, discharging, and disposing of hazardous substances and wastes.

As at December 31, 1995, the accruals on the Corporation's consolidated balance sheet for environmental matters, including those referred to immediately below, were \$55 million. It is anticipated that a majority of the accruals will be spent over the next three years. Based on information presently available, management believes that the existing accruals are sufficient to satisfy probable and reasonably estimable environmental liabilities related to known environmental matters. Any additional liability that may result from these matters, and any additional liabilities that may result in connection with other sites currently under investigation, are not expected to have a material adverse impact on the consolidated financial position or results of operations of the Corporation.

Nortel has remedial activities under way at eleven manufacturing sites and four previously occupied sites. An estimate of Nortel's anticipated remediation costs associated with all such sites, to the extent probable and reasonably estimable, is included in the environmental accruals referred to above in an approximate amount of \$51 million.

Moreover, Nortel has been named as a potentially responsible party (PRP) under the U.S. Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) at five Superfund sites in the United States and is listed as a *de minimis* PRP at three of these Superfund sites. An estimate of Nortel's share of the anticipated remediation costs associated with such Superfund sites is included in the environmental accruals referred to above.

Liability under CERCLA may be imposed on a joint and several basis, without regard to the extent of Nortel's involvement. In addition, the accuracy of Nortel's estimate of environmental liability is affected by several uncertainties such as additional requirements which may be identified in connection with remedial activities, the complexity and evolution of environmental laws and regulations, and the identification of presently unknown remediation sites. Consequently, Nortel's liability could be greater than its current estimate.

Pensions

Nortel has non-contributory defined benefit pension plans covering substantially all of its employees. The benefits are based on length of service and rates of compensation. In determining its pension obligations and expense, the weighted average discount rates used for 1995 pension calculations were 8.5 percent and 8.0 percent for the deferred pension asset and the deferred pension liability, respectively, which reflects economies with higher long-term discount rates than would typically be found in the United States. Nortel believes that a downward adjustment of the discount rate may have a material effect on earnings.

Dividends

The Corporation declared a cash dividend of \$.09 per common share in the first quarter of 1995 and \$.11 per common share in each of the three following quarters of 1995, for a total dividend of \$.42 per common share for the year. Total dividends paid on common shares were \$107 million in 1995 and \$91 million in 1994. The Corporation intends to continue paying quarterly dividends on its common shares. The board of directors determines dividend payments based on such considerations as earnings from operations, capital requirements, and Nortel's financial condition.

Dividends paid to owners of the Corporation's common shares who are not residents of Canada are subject generally to a 25 percent withholding tax, unless reduced by treaty. Under income tax conventions between Canada and both the United States and the United Kingdom, a withholding tax of 15 percent generally applies to residents of the United States and United Kingdom who do not have a "permanent establishment" or "fixed base" in

Canada with which the dividends are effectively connected. Persons subject to either United States or United Kingdom income tax on dividends generally will be entitled, subject to certain limitations, to either a credit or deduction with respect to the Canadian taxes withheld.

Gains on disposals of common shares of the Corporation by owners who are not residents of Canada are generally not subject to Canadian income tax, unless shares are used or held by a non-resident who is carrying on a business in Canada.

Stock Prices

The following table shows the high, low, and last (closing) prices of the Corporation's common shares on The Toronto Stock Exchange (TSE) and as reported on the New York Stock Exchange (NYSE) composite tape for each quarter of 1994 and 1995. On January 31, 1996, the last price on the TSE was C\$61 $\frac{3}{4}$ and on the NYSE was \$45.

	TSE (C\$)			NYSE composite tape (US\$)		
	High	Low	Close	High	Low	Close
1995						
1st quarter	56	45 $\frac{1}{2}$	53	40	32 $\frac{1}{4}$	37 $\frac{1}{8}$
2nd quarter	56	47 $\frac{5}{8}$	49 $\frac{3}{4}$	41	35 $\frac{5}{8}$	36 $\frac{1}{2}$
3rd quarter	52 $\frac{1}{2}$	46 $\frac{5}{8}$	47 $\frac{3}{4}$	39	34 $\frac{1}{2}$	35 $\frac{5}{8}$
4th quarter	60 $\frac{1}{2}$	43 $\frac{1}{8}$	58 $\frac{5}{8}$	44 $\frac{1}{4}$	31 $\frac{1}{2}$	43
1994						
1st quarter	44 $\frac{1}{2}$	37 $\frac{1}{8}$	38 $\frac{1}{2}$	33 $\frac{3}{4}$	27 $\frac{3}{8}$	28
2nd quarter	43 $\frac{3}{4}$	36 $\frac{1}{8}$	38 $\frac{1}{2}$	31 $\frac{7}{8}$	26	27 $\frac{5}{8}$
3rd quarter	51	38 $\frac{3}{4}$	46 $\frac{5}{8}$	37 $\frac{3}{4}$	27 $\frac{5}{8}$	34 $\frac{3}{4}$
4th quarter	49 $\frac{3}{8}$	43 $\frac{1}{4}$	46 $\frac{3}{4}$	36 $\frac{3}{4}$	31 $\frac{1}{4}$	33 $\frac{3}{8}$

On December 31, 1995, BCE Inc. owned 52.1 percent of the outstanding common shares of the Corporation, with approximately 9,520 other registered shareholders owning the remaining 47.9 percent.

Total Taxes Paid

In 1995, Nortel made the following total net cash tax payments:

(millions of U.S. dollars)	1995
Income taxes	\$ 134
Payroll, sales, property, and other taxes	354
Total	\$488

Total taxes by geographic area:

Canada	\$ 96
United States and other	392
Total	\$488

Management's Report

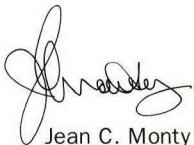
The accompanying consolidated financial statements of Northern Telecom Limited and all information in this annual report are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation, in furtherance of the integrity and objectivity of the financial statements, has developed and maintains a system of internal controls and supports an extensive program of internal audits. Management believes the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements, and that assets are properly accounted for and safeguarded. The internal control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval by the board of directors. The shareholders' auditors have full access to the audit committee, with and without management's being present.

These financial statements have been examined by the shareholders' auditors, Deloitte & Touche, Chartered Accountants, and their report is presented below.



Jean C. Monty
President and Chief Executive Officer



Peter W. Currie
Senior Vice-President and Chief Financial Officer

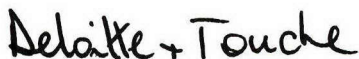
Auditors' Report

To The Shareholders
Northern Telecom Limited

We have audited the consolidated balance sheets of Northern Telecom Limited as at December 31, 1995 and 1994 and the consolidated statements of operations, retained earnings and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1995 and 1994 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 in accordance with accounting principles generally accepted in Canada.



Deloitte & Touche
Chartered Accountants

Toronto, Canada
February 1, 1996

Consolidated Statements of Operations

Northern Telecom Limited
Year Ended December 31
(millions of U.S. dollars except per share figures)

	1995	1994	1993
Revenues	\$10,672	\$8,874	\$8,148
Cost of revenues	6,379	5,605	5,199
Gross profit	4,293	3,269	2,949
Selling, general, and administrative expense	1,923	1,681	1,598
Research and development expense (note 3)	1,579	1,156	1,040
Goodwill amortization (note 4)	39	23	44
Restructuring costs and other charges (note 2)	—	—	1,161
Operating earnings (loss)	752	409	(894)
Equity in net earnings of associated companies	7	17	3
Investment and other income – net (note 6)	107	200	74
Interest expense (note 15)			
Long-term debt	(126)	(126)	(128)
Other	(34)	(62)	(125)
Gain on sales of businesses (note 7)	—	131	—
Earnings (loss) before income taxes	706	569	(1,070)
Income tax provision (recovery) (note 8)	233	161	(192)
Net earnings (loss)	473	408	(878)
Dividends on preferred shares	4	4	6
Net earnings (loss) applicable to common shares	\$ 469	\$ 404	\$ (884)
Earnings (loss) per common share	\$ 1.85	\$ 1.60	\$ (3.54)
Dividends declared per common share	\$.42	\$.36	\$.36
Weighted average number of common shares outstanding (millions)	254	252	250

Consolidated Statements of Retained Earnings

Northern Telecom Limited
Year Ended December 31
(millions of U.S. dollars)

	1995	1994	1993
Balance at beginning of year	\$ 2,438	\$2,125	\$3,099
Net earnings (loss)	473	408	(878)
	2,911	2,533	2,221
Dividends			
Preferred shares	(4)	(4)	(6)
Common shares	(107)	(91)	(90)
Balance at end of year	\$ 2,800	\$2,438	\$2,125

Consolidated Balance Sheets

Northern Telecom Limited
as at December 31
(millions of U.S. dollars)

	1995	1994
Assets		
Current assets		
Cash and short-term investments at cost (approximates market value)	\$ 202	\$1,059
Accounts receivable		
Related parties	205	119
Trade (less provision for uncollectibles \$81 for 1995, \$71 for 1994)	3,488	2,772
Inventories (note 11)	1,643	1,041
Prepaid expenses	83	92
Deferred income taxes	201	272
	5,822	5,355
Long-term receivables (less provision for uncollectibles \$14 for 1995, nil for 1994)	376	339
Investments		
Associated companies at equity (note 12)	22	190
Other	165	47
	187	237
Plant and equipment – net (note 13)	1,923	1,705
Goodwill	847	840
Other assets	287	289
Total assets	\$9,442	\$8,765

Consolidated Balance Sheets

Northern Telecom Limited
as at December 31
(millions of U.S. dollars)

	1995	1994
Liabilities and Shareholders' Equity		
Current liabilities		
Notes payable	\$ 180	\$ 6
Accounts payable and accrued liabilities		
Trade and other payables	1,124	909
Related parties	4	51
Payroll	170	107
Other accrued liabilities (note 2)	1,900	2,014
Income taxes payable	57	83
Long-term debt due within one year (note 15)	317	25
	3,752	3,195
Long-term liabilities		
Deferred income	17	8
Long-term debt (note 15)	1,236	1,507
Deferred income taxes	155	236
Other liabilities	282	269
	5,442	5,215
Minority interest in subsidiary companies	129	122
Shareholders' equity		
Preferred shares (note 16)	73	73
Common shares (notes 17 and 18)	1,273	1,245
Retained earnings	2,800	2,438
Currency translation adjustment (note 19)	(275)	(328)
	3,871	3,428
Commitments and contingencies (notes 20 and 21)		
Total liabilities and shareholders' equity	\$9,442	\$8,765

On behalf of the Board of Directors



Donald J. Schuenke
Director



L. Yves Fortier
Director

Consolidated Statements of Cash Flows

Northern Telecom Limited
Year Ended December 31
(millions of U.S. dollars)

	1995	1994	1993
Cash and short-term investments at beginning of year	\$ 1,059	\$ 138	\$ 90
Operating activities			
Net earnings (loss)	473	408	(878)
Items not involving cash			
Depreciation and amortization	503	461	505
Equity in net earnings of associated companies			
in excess of dividends received	(2)	(15)	–
Deferred income taxes	(81)	(42)	(66)
Increase (decrease) in other liabilities	(21)	11	19
Gain on sales of businesses – net of income taxes	–	(100)	–
Restructuring costs and other charges – net of income taxes	–	–	940
Other	(20)	8	(21)
(Increase) decrease in non-cash			
working capital components (note 22)	(1,065)	118	(367)
Total	(213)	849	132
Investing activities			
Expenditures for plant and equipment	(577)	(389)	(471)
Disposals of plant and equipment	16	10	25
(Increase) decrease in long-term receivables	(27)	20	(10)
Acquisitions and other investments (note 12)	(40)	(127)	(196)
Proceeds on sales of businesses (note 7)	4	1,643	11
Total	(624)	1,157	(641)
Financing activities			
Dividends on common and preferred shares	(111)	(95)	(96)
Increase (decrease) in notes payable	74	(796)	193
Additions to long-term debt	–	–	650
Reductions of long-term debt	(11)	(256)	(191)
Redemption/retraction of preferred shares (note 16)	–	–	(76)
Issue of common shares (note 17)	28	62	77
Total	(20)	(1,085)	557
Cash and short-term investments at end of year	\$ 202	\$ 1,059	\$ 138
Increase (decrease) in cash and short-term investments	\$ (857)	\$ 921	\$ 48

Notes to Consolidated Financial Statements

Northern Telecom Limited

(millions of U.S. dollars, except per share figures and unless otherwise stated)

1. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. With respect to the consolidated financial statements of Northern Telecom Limited (the Corporation) and its subsidiary companies (collectively, Nortel), there are no material differences between Canadian and United States generally accepted accounting principles (GAAP) except as described in note 9. The Corporation and other Nortel operations domiciled in Canada measure their operations in Canadian dollars and translate to U.S. dollars for reporting purposes.

(a) Principles of consolidation

The financial statements of entities which are controlled by the Corporation, referred to as subsidiaries, are consolidated; entities which are not controlled and over which the Corporation has the ability to exercise significant influence, referred to as associated companies, are accounted for using the equity method; and investments in other entities are accounted for using the cost method.

Effective January 1, 1995, a change in Canadian GAAP has necessitated the proportionate consolidation of interests in joint ventures (note 5). As a result, Nortel no longer uses the equity method to account for these investments. Earnings per common share is unaffected by the change.

(b) Translation of foreign currencies

The consolidated financial statements are expressed in U.S. dollars as the greater part of earnings and net assets of Nortel are denominated in U.S. dollars.

Self-sustaining operations, which comprise most of the Corporation's subsidiaries, are those whose economic activities are largely independent of those of the Corporation as a parent company. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses, including gains and losses on foreign exchange transactions other than long-term intercompany advances, are translated at average rates for the period. The unrealized translation gains and losses on the Corporation's net investment, including long-term intercompany advances, in these operations are accumulated in a separate component of shareholders' equity, described in the consolidated balance sheets as currency translation adjustment. Exchange gains or losses on certain debt designated as partial hedges of foreign self-sustaining operations are also included in the currency translation adjustment. These gains and losses may become realized on the payment of dividends by, or a change in the equity capital of, a self-sustaining operation, in which event an appropriate portion of currency translation adjustment is recognized in net earnings.

Integrated subsidiaries are financially or operationally dependent on the Corporation as a parent company. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period. Translation exchange gains or losses of integrated subsidiaries and those subsidiaries operating in hyper-inflationary economic environments are reflected in net earnings.

(c) Revenue recognition

Revenues, excluding software revenues, are recognized using the percentage-of-completion method or upon shipment of the product, as appropriate. Software revenues are recognized upon performance of all contractual obligations or in accordance with the percentage-of-completion method, as appropriate.

(d) Depreciation

Depreciation is calculated generally on the straight-line method using rates based on the expected useful lives of the assets. The expected useful lives of buildings are twenty to forty years and machinery and equipment are three to sixteen years.

(e) Research and development

Research and development costs are charged to earnings in the periods in which they are incurred, except for costs incurred pursuant to specific contracts with third parties, which are charged to earnings in the same period as the related revenue is recognized. Related investment tax credits reduce research and development expense in the same period in which the related expenditures are charged to earnings, provided there is reasonable assurance the benefits will be realized. Computer software development costs for specified internal applications have been deferred and are being amortized on a straight-line basis over three to five years.

(f) Income taxes

Nortel provides for income taxes based on accounting income using the deferral method. Under this method, taxes are computed using current tax rates regardless of when such income is subject to taxes under the tax laws. The deferred tax balances which result are not adjusted for any subsequent changes in tax rates and include benefits related to investment tax credits.

(g) Cash equivalents

All highly liquid investments with original maturities of three months or less are classified as cash and short-term investments.

h) Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work in process comprise material, labor, and manufacturing overhead.

i) Goodwill

Goodwill represents the excess at the dates of acquisition of the costs over the fair values of the net assets of both subsidiary companies and associated companies, and is amortized on a straight-line basis over the estimated lives to

1. Significant Accounting Policies (continued)

a maximum of forty years. Nortel evaluates the carrying value of goodwill for potential permanent impairment on an on-going basis. In order to determine if such a permanent impairment exists, Nortel's management considers each business unit's financial condition and expected future earnings before tax using projected financial performance. A permanent impairment in the value of goodwill is written off against earnings in the year such impairment is recognized.

(j) Earnings (loss) per common share

Earnings (loss) per common share are calculated after deducting dividends on preferred shares from net earnings (loss) and are based on the weighted average number of common shares outstanding during the period.

(k) Financial Instruments

Nortel records gains and losses on financial instruments as incurred except for those designated as hedges as outlined in note 1(b). Any premiums paid with respect to financial instrument contracts are deferred and expensed to earnings over the contract period.

2. Restructuring costs and other charges

On July 21, 1993, the Corporation announced \$1,161 in special charges for a restructuring program (\$409 pre-tax), a new software initiative (\$252 pre-tax), and a goodwill write-down (\$500).

As at December 31, 1995, the remaining restructuring and software initiative provisions included in other accrued liabilities were \$38 and nil, respectively. As at December 31, 1994, the outstanding provisions were \$149 and \$65, respectively.

3. Research and development

	1995	1994	1993
Research and development expense	\$1,579	\$1,156	\$1,040
Research and development costs incurred on behalf of others	173	145	176
Total	\$1,752	\$1,301	\$1,216

Effective 1994, certain costs primarily representing product design verification and testing activities, which had been recorded principally as cost of revenues, were reclassified to research and development expense. The above amounts, which are net of global investment tax credits of \$120, \$109, and \$119 in 1995, 1994, and 1993, respectively, exclude spending related to the software initiative (and charged to provisions) of \$65, \$69, and \$118 for 1995, 1994, and 1993, respectively. The above costs include research and development charged to customers of Nortel pursuant to contracts that provide for full recovery of the estimated cost of development, material, engineering, installation, and all other attracted costs which are accounted for as contract costs.

4. Goodwill amortization

Total goodwill amortization charged to operations, including that in equity in net earnings of associated companies, for the years ended December 31, 1995, 1994, and 1993, was \$39, \$23, and \$46, respectively.

5. Interests in joint ventures

Included in the consolidated statement of operations and the consolidated statement of cash flows for the year ended December 31, 1995, and the consolidated balance sheet as at December 31, 1995, and as summarized below, is Nortel's proportionate share of interests in joint ventures, including goodwill attributable to the joint ventures. A substantial portion of the amounts proportionately consolidated relate to the operations of Matra Communication S.A.S. (note 12).

Prior to 1995, the equity method was used to account for these joint ventures.	As at December 31, 1995	
	Total assets	\$ 1,092
	Total liabilities	\$ 644
	Year ended December 31, 1995	
	Revenues	\$ 830
	Net loss	\$ 71
	Cash flow from operating activities	\$ (36)
	Cash flow from investing activities	(59)
	Cash flow from financing activities	85
	Total cash flow	\$ (10)

On March 10, 1995, Nortel and Daimler-Benz Aerospace AG of Germany announced the formation of a joint venture with equal ownership. The company, Nortel Dasa Network Systems GmbH & Co. KG, commenced operations in the second quarter. Nortel contributed a major portion of the existing assets of its German subsidiary, Northern Telecom GmbH, to the joint venture, and has funded, and will continue to fund an equal share of the future cash flow requirements.

Effective July 28, 1995, Nortel and Olivetti S.p.A. (Olivetti), an Italian company, formed a joint venture. Under the terms of the agreement between Nortel and Olivetti, Nortel acquired a 49 percent ownership interest in Sixtel S.p.A. The remaining 51 percent ownership interest is owned by Olivetti. Nortel and Olivetti exercise joint control.

6. Investment and other income – net

	1995	1994	1993
Interest income	\$140	\$128	\$43
Royalty income	25	20	13
Currency exchange (losses) gains	(2)	82	(5)
Other	(56)	(30)	23
Investment and other income – net	\$107	\$200	\$74

7. Sales of businesses

Effective January 12, 1994, Nortel sold its semiconductor manufacturing facility in San Diego, California, to SGS-THOMSON Microelectronics Inc. (SGS-THOMSON) for gross proceeds, before closing adjustments, of \$43, resulting in no gain. Nortel also entered into an agreement with SGS-THOMSON to purchase integrated circuits.

On February 28, 1994, the Corporation completed the sale of its optical fiber and fiber cable manufacturing facility in Saskatoon, Saskatchewan, for gross proceeds, before closing adjustments, of \$130, resulting in a gain of \$98.

On March 11, 1994, the sale of the STC Submarine Systems business was completed effective January 1, 1994. Gross proceeds, before closing adjustments, of £400 million were received on March 11, 1994, and the remaining £200 million were received on April 29, 1994. This transaction reduced goodwill by £500 million (\$740), resulting in no gain.

Effective May 1, 1994, Nortel sold Northern Telecom Finance Corporation (NTFC), the wholly owned finance subsidiary in the United States, to General Electric Capital Corporation (GECC) for approximately net book value at closing. Nortel also entered into a long-term operating agreement with GECC to provide financing to customers of Nortel and customers of its distributors in the United States.

Effective December 30, 1994, Nortel sold the connection, protection, and optical fiber management systems businesses to Siecor Corporation (Siecor) for gross proceeds, before closing adjustments, of \$130, resulting in a gain of \$33. Nortel also entered into a supply agreement with Siecor to purchase these products.

On December 20, 1995, Nortel announced an agreement providing for the sale to Cable Design Technologies (CDT) Canada Inc., since renamed NORDX/CDT, Inc., of Nortel's structured wiring and copper wire and cable business. This transaction becomes effective February 2, 1996. Gross proceeds amounted to \$90, before closing adjustments, resulting in no material gain or loss.

8. Income taxes

The following is a reconciliation of income taxes calculated at the Canadian combined federal and provincial income tax rate to the income tax provision (recovery) included in the consolidated statements of operations:

	1995	1994	1993
Income taxes at Canadian rates (1995 - 42.9%, 1994 - 42.7%, 1993 - 42.6%)	\$303	\$243	\$ (456)
Reduction of Canadian taxes applicable to manufacturing profits	(15)	(16)	(10)
Difference between Canadian rate and rates applicable to United States and other subsidiaries	(46)	(28)	(17)
Difference between Canadian rate and rates applicable to gains on sales of businesses	–	(26)	–
Difference between Canadian rate and rates applicable to restructuring costs and other charges	–	–	273
Other	(9)	(12)	18
Income tax provision (recovery)	\$233	\$161	\$ (192)

Details of Nortel's income taxes were:

	1995	1994	1993
Earnings (loss) before income taxes			
Canadian	\$186	\$194	\$ 137
United States and other	520	244	(46)
Gain on sales of businesses	–	131	–
Restructuring costs and other charges	–	–	(1,161)
	\$706	\$569	\$(1,070)
Income tax provision (recovery)			
Canadian	\$ 11	\$ 24	\$ 39
United States and other	222	107	(10)
Gain on sales of businesses	–	30	–
Restructuring costs and other charges	–	–	(221)
	\$233	\$161	\$ (192)
Income tax provision (recovery)			
Current	\$132	\$143	\$ 67
Deferred	101	18	(259)
	\$233	\$161	\$ (192)

8. Income taxes (continued)

The deferred portion of the income tax provision (recovery) results from the recognition of certain revenues and expenses in the financial statements in different periods from those for income tax purposes.

	1995	1994	1993
The following is a summary of the components:			
Depreciation	\$ (20)	\$ (8)	\$ (10)
Contracts in progress and other income items	—	(3)	(4)
Restructuring costs and other charges	55	109	(178)
Gain on sales of businesses	11	(26)	—
Other	55	(54)	(67)
	\$101	\$ 18	\$(259)

At December 31, 1995, for income tax purposes, Nortel had operating loss carry forwards of approximately \$79 which expire between 1996 and 2000 and approximately \$416 which can be applied indefinitely against future income.

9. Reconciliation of results reported in accordance with Canadian GAAP with United States GAAP

	1995	1994	1993
Nortel's accounting policies are consistent in all material aspects with United States GAAP with the following exceptions:			
Net earnings (loss) applicable to common shares – Canadian GAAP	\$ 469	\$ 404	\$(884)
Adjustments:			
Statement No. 106 (i)			
Impact of change in accounting policy as at January 1, 1993 (transition obligation)	—	—	(213)
In-year impact	(17)	(18)	(18)
Statement No. 109 (ii)			
Impact of change in accounting policy as at January 1, 1993	—	—	207
In-year impact	(31)	(28)	(2)
Statement No. 112 (iii)			
Impact to December 31, 1995	(26)	—	—
Net earnings (loss) applicable to common shares – United States GAAP	\$ 395	\$ 358	\$(910)
Earnings (loss) per common share – United States GAAP	\$1.56	\$1.42	\$(3.64)
Common share effect of GAAP difference in year	\$ (.29)	\$ (.18)	\$ (.10)
Cumulative per common share effect of GAAP differences since January 1, 1993	\$ (.57)	\$ (.28)	\$ (.10)

The cumulative effect on retained earnings of GAAP differences since January 1, 1993, as at December 31, 1995, 1994, and 1993, was \$(146), \$(72), and \$(26), respectively.

(i) For the purpose of reporting under United States GAAP, the Financial Accounting Standards Board's (FASB) Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" became effective for fiscal years beginning after December 15, 1992. This standard requires companies to accrue the expected cost of postretirement benefits other than pensions during the years employees provide service to the company. The transition obligation is measured as the amount of the unfunded and previously unrecognized postretirement benefit obligation for all plan participants. This standard allows companies to recognize the transition obligation either in the year of adoption or prospectively. For the purpose of reporting under United States GAAP, Nortel has chosen to recognize the transition obligation on January 1, 1993. The in-year impact represents the incremental impact of the change from recognizing the cost of postretirement benefits as claims are paid to the method required by Statement No. 106.

	1995	1994	1993
The following data is based upon the report from independent consulting actuaries as at December 31:			
Accrued postretirement benefit cost:			
Accumulated postretirement benefit obligation	\$401	\$386	\$361
Plan assets at fair value	(37)	(35)	(35)
Unrecognized net gain (loss)	2	(18)	1
Accrued postretirement benefit cost	\$366	\$333	\$327
Postretirement benefit cost:			
Service cost	\$ 13	\$ 14	\$ 14
Interest on projected plan benefits	30	27	26
Return on plan assets	(2)	(3)	(4)
Amortization	(1)	—	1
Transition obligation	—	—	297
Postretirement benefit cost	40	38	334
Less: Claims paid and expensed under Canadian GAAP	13	10	9
US GAAP adjustment for postretirement benefits	\$ 27	\$ 28	\$325
Transition obligation after tax	\$ —	\$ —	\$213
In-year impact after tax	\$ 17	\$ 18	\$ 18

Northern Telecom Limited
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	1995	1994	1993
Assumptions:			
Weighted average discount rate	7.9%	7.8%	7.5%
Expected long-term rate of return on assets	8.0%	7.5%	7.5%
Weighted average health care cost trend rate	8.5%	8.0%	8.2%
Weighted average ultimate health care cost trend rate	5.2%	5.3%	5.0%
Year in which ultimate health care cost trend rate will be achieved	2001	2006	2006
Effect of a 1% increase in the assumed health care cost trend rate for each future year on:			
i) Accumulated postretirement benefit obligation	\$27	\$31	\$32
ii) Aggregate of the service and interest cost components of net postretirement benefit cost	\$ 3	\$ 3	\$ 4

(ii) For the purpose of reporting under United States GAAP, FASB's Statement No. 109, "Accounting For Income Taxes," became effective for fiscal years beginning after December 15, 1992. This standard requires companies to adopt an asset and liability approach in accounting for income taxes. The impact as at January 1, 1993, represents the cumulative prior years' effect as a result of the change in accounting policy. The in-year impact represents the incremental impact of the change from the deferral method to the method required by Statement No. 109.

	1995	1994
The following table shows the main items included in deferred income taxes under United States GAAP as at December 31:		
Deferred income taxes:		
Assets: Tax benefit of loss carry overs and tax credits	\$407	\$314
Provisions and reserves	330	343
Postretirement benefits other than pensions	36	32
Pensions	15	20
Other	15	64
	803	773
Valuation allowance	(125)	(68)
Goodwill	(12)	(12)
	666	693
Liabilities: Provisions and reserves	294	271
Depreciation	135	199
Other	45	10
	474	480
Net deferred income taxes	\$192	\$213

(iii) For the purpose of reporting under United States GAAP, FASB's Statement No. 112, "Employers' Accounting for Postemployment Benefits," requires companies to accrue the expected cost of benefits to former or inactive employees after employment but before retirement. The net accrued postemployment benefit cost that has not been accrued under Canadian GAAP as at December 31, 1995, is \$41. Prior to December 31, 1995, the effect of Statement No. 112 was not considered material.

(iv) For the purposes of reporting under United States GAAP, FASB's Statement No. 95, "Statement of Cash Flows," requires additional disclosures not required under Canadian GAAP. These disclosures are as follows:

	1995	1994	1993
Income taxes paid	\$134	\$ 35	\$111
Interest paid	\$159	\$195	\$274

(v) For the purposes of reporting under United States GAAP, dilutive common share equivalents (which include convertible securities and stock options) are included in the calculation of earnings per share. For 1995, 1994, and 1993, the number of shares used to calculate earnings per share under United States GAAP has not been materially different from the number of shares used to calculate earnings per share under Canadian GAAP.

(vi) As at December 31, 1995, and December 31, 1994, there were no material differences between balance sheet item amounts calculated under United States GAAP and those calculated under Canadian GAAP and shown on Nortel's Consolidated Balance Sheets with the exception of the effect of proportionately consolidating the operations that are under joint control as disclosed in note 5, the "accrued postretirement benefit cost" as disclosed in part (i) of this note, "net deferred income taxes" as disclosed in part (ii) of this note, and the "net accrued postemployment benefit cost" as disclosed in part (iii) of this note.

10. Finance subsidiaries

The finance subsidiary has provided funds to some of the Corporation's subsidiaries and has financed certain equipment sales and certain third-party transactions.

The following is a summary of the financial highlights of the finance subsidiary(ies), which reflects the sale of NTFC, effective May 1, 1994, described in note 7, for the year ended December 31:

	1995	1994	1993
Interest income			
Corporation's subsidiaries	\$ 5	\$ 26	\$ 91
Other*	49	64	80
Net earnings	\$46	\$ 67	\$ 83
*Included in revenues in the consolidated statements of operations.			
	1995	1994	
Assets			
Cash and short-term investments	\$ 18	\$ 192	
Receivables	157	143	
Loans to Corporation's subsidiaries	377	199	
Other assets	297	297	
	\$ 849	\$ 831	
Liabilities	\$ 34	\$ 42	
Shareholder's equity	815	789	
	\$ 849	\$ 831	

11. Inventories

At December 31, inventories consisted of:

	1995	1994
Raw materials	\$ 478	\$ 244
Work in process	345	275
Finished goods	820	522
	\$1,643	\$1,041

12. Investments

On June 30, 1994, Nortel signed an agreement with Lagardère Groupe SCA (Lagardère) which effectively replaces agreements signed on July 2, 1992, pertaining to Matra Communication S.A.S. (Matra Communication), a French subsidiary of Lagardère in which Nortel has held a 20 percent equity participation. As a consequence of the new agreement, Nortel has increased its equity participation in Matra Communication such that Nortel and Lagardère currently each hold 50 percent of the outstanding share capital of Matra Communication. Further, Nortel increased its direct equity participation in Nortel Matra Cellular SCA, a company which it jointly owns with Matra Communication, to 66 percent. The transactions represented an additional investment by Nortel of approximately \$145. In addition, Nortel converted an existing debenture valued at approximately \$150, as contemplated by the July 2, 1992, agreements.

Nortel's proportionate share of Matra Communication is included in the consolidated statement of operations and the consolidated statement of cash flows for the year ended December 31, 1995, and the consolidated balance sheet as at December 31, 1995.

In a related agreement, Lagardère may, under specific circumstances, require Nortel to purchase all or part of its equity participation in Matra Communication at a formula price, currently estimated at approximately 1.7 billion French francs (approximately \$351) for all its equity participation, with consideration consisting of a long-term interest-bearing note.

13. Plant and equipment

At December 31, plant and equipment consisted of:

	1995	1994
Cost:		
Land	\$ 88	\$ 75
Buildings	892	776
Machinery and equipment	3,553	3,059
	4,533	3,910
Less:		
Accumulated depreciation		
Buildings	290	244
Machinery and equipment	2,320	1,961
	2,610	2,205
	\$1,923	\$1,705

14. Plans for employees' pensions and other postretirement benefits

Nortel has non-contributory defined benefit pension plans covering substantially all of its employees. The benefits are based on length of service and rates of compensation.

Nortel's policy is to fund pensions based on widely used actuarial methods as permitted by pension regulatory authorities. The funded amounts reflect actuarial assumptions regarding compensation, interest, and other projections. Plan assets are represented primarily by common stocks, bonds, debentures, secured mortgages, and property. Included in

plan assets are common shares and debentures of BCE Inc. (BCE) and debentures of Bell Canada with an aggregate market value of \$11 (\$18 in 1994).

Pension costs reflected in the consolidated statements of operations are based on the unit credit method of valuation of pension plan benefits. Within the consolidated balance sheets, pension plan assets are included in other assets and pension plan liabilities are included in other liabilities.

The following are details of the funded status of the plans and amounts recognized in the consolidated balance sheets at December 31:

	Deferred Pension Asset		Deferred Pension Liability	
	1995	1994	1995	1994
Funded status:				
Actuarial present value of:				
Vested benefit obligation	\$1,625	\$1,505	\$1,633	\$1,478
Accumulated benefit obligation	\$1,682	\$1,553	\$1,724	\$1,562
Projected benefit obligation	\$1,921	\$1,761	\$1,905	\$1,725
Plan assets at fair value	2,168	2,042	1,457	1,344
Excess (deficiency) of plan assets at fair value over projected plan benefits	247	281	(448)	(381)
Unrecognized net plan (benefits) obligations existing at January 1, 1987	(20)	(21)	32	41
Other unrecognized net plan (benefits) obligations and amendments	5	(62)	218	173
Net accrued pension asset (liability)	\$ 232	\$ 198	\$ (198)	\$ (167)
Pension expense:				
Service cost – benefits earned	\$ 61	\$ 56	\$ 49	\$ 48
Interest cost on projected plan benefits	159	137	143	135
Estimated return on plan assets	(188)	(180)	(108)	(103)
Amortization of net pension plan benefits and amendments	21	32	32	37
Net pension expense	\$ 53	\$ 45	\$ 116	\$ 117
Other information:				
Assumptions:				
Discount rates	8.5%	8.5%	8.0%	8.0%
Rate of return on assets	9.0%	9.0%	8.0%	8.0%
Rate of compensation increase	5.9%	6.8%	4.8%	4.8%
Amortization period (years)	14.2	14.4	10.0	11.0

In addition to pension plan benefits, Nortel provides certain health care and life insurance benefits for most of its retired employees. The costs of retiree health care benefits are recognized as claims are paid. Life insurance benefits for retirees are expensed as paid, during the post-employment period. For the years ended December 31, 1995, 1994, and 1993, the costs of retiree benefits amounted to \$13, \$10, and \$9, respectively.

15. Long-term debt

At December 31, long-term debt consisted of:

	1995	1994
6½% Notes due October 1, 2002	\$ 300	\$ 300
7.45% Notes due March 9, 1998, swapped to U.K. pounds principal and interest with an average floating rate of 6.8%	254	257
8¾% Notes due June 12, 2001, swapped to U.K. pounds principal and interest of 10.75%	231	234
8¾% Notes due June 12, 1996, swapped to U.K. pounds principal and interest of 10.60%	231	234
6¾% Notes due September 1, 2023	200	200
6% Notes due September 1, 2003	200	200
9.60% Notes due in equal annual installments, January 2, 1996, to December 30, 1997	60	60
Other long-term debt including obligations under capital leases and long-term debt of the finance subsidiary (note 10)	77	47
	1,553	1,532
Less: Amount included in current liabilities	317	25
	\$1,236	\$1,507
Finance subsidiary(ies) – interest expense	\$ 3	\$ 7
Long-term debt interest expense	126	126
Other interest expense	34	62
Total interest expense	\$ 163	\$ 195

At December 31, 1995, the amounts of long-term debt payable (excluding obligations under capital leases), for the years 1996 through 2000 were \$313, \$41, \$255, nil, and nil, respectively.

16. Preferred shares

The Corporation is authorized to issue an unlimited number of Class A Preferred Shares and Class B Preferred Shares, without nominal or par value, issuable in series. Class A Preferred Shares have been issued for consideration denominated in Canadian dollars (C\$).

	1995		1994		1993	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
At December 31, outstanding preferred shares included in shareholders' equity consisted of:	Cumulative Redeemable Class A Preferred Shares:					
	Series 4, issued June 25, 1985, for consideration of C\$100 million					
	200	\$73	200	\$73	200	\$73

The Cumulative Redeemable Class A Preferred Shares Series 4 (Series 4 Shares) are presented in U.S. dollars after translation at the exchange rate in effect at the date of original issue. The dividend rate on the Series 4 Shares is determined by auctions held at intervals of approximately one month on the business day immediately preceding the commencement of each dividend period. The Corporation can neither participate, nor oblige any subsidiary to participate, in the auction procedures. The annual dividend rate may not exceed the Bankers' Acceptance Rate in effect on the auction date plus .40 percent. The annual dividend rate in effect on December 31, 1995, 1994, and 1993, was 4.10 percent, 6.33 percent, and 3.87 percent, respectively. The Corporation may call all or a part of the Series 4 preferred shares for redemption at a price of C\$500,000 per share, on the business day immediately preceding any auction date.

Dividends on the outstanding Series 4 Shares are declared and payable in Canadian dollars. Amounts equal to accrued and unpaid dividends are payable by the Corporation upon redemption of the Series 4 Shares. The applicable dividend must be declared prior to redemption.

On July 8, 1994, the Corporation issued 200 Exchange Rights to the holders of its Series 4 Shares without cost to such holders. The Exchange Rights entitle the holders to exchange each Exchange Right, together with one Series 4 Share, for that number of common shares determined by dividing C\$500,000 by the greater of C\$2.50 and 95 percent of the weighted average trading price of the common shares on The Toronto Stock Exchange for the ten trading days ending immediately preceding the exchange date. The Exchange Rights will be of no force or effect until the occurrence of two consecutive unsuccessful auctions in which there are not sufficient clearing bids to determine a dividend rate in respect of the Series 4 Shares. As at December 31, 1995, no Exchange Rights had been exercised. An Exchange Right has no value except in connection with a Series 4 Share.

On December 10, 1993, all outstanding Floating Rate Cumulative Redeemable Retractable Class A Preferred Shares Series 3 were redeemed by the Corporation at a price of C\$25 per share plus all accrued and unpaid dividends to December 10, 1993.

17. Common shares

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value.

Outstanding common shares during the year ended December 31 were:	1995		1994		1993		
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	
	January 1	253,353,915	\$1,245	251,265,697	\$1,183	248,413,622	\$1,106
	Issued during the year	999,665	28	2,088,218	62	2,852,075	77
	December 31	254,353,580	\$1,273	253,353,915	\$1,245	251,265,697	\$1,183

At December 31, 1995, and 1994, BCE owned 52.1 percent and 52.3 percent of the outstanding common shares, respectively.

	1995		1994		1993		Listed 1995
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	
Common shares issued during the year ended and listed for future issuance under the following plans at December 31 were:	Issued						
	Shareholder Dividend Reinvestment and Stock Purchase Plan						
	62,165		1,576,433		905,026		4,105,605
	Investment Plan for Employees – Canada						
	–		82,335		780,994		2,000,173
	Long-term Investment Plan – U.S.						
	–		–		–		177,235
	Stock Option Plan (note 18)						
	937,500		429,450		1,166,055		19,594,095
	999,665		2,088,218		2,852,075		25,877,108

18. Stock options

In January 1986, the Corporation introduced the Northern Telecom Limited 1986 Stock Option Plan, under which options to purchase common shares of the Corporation may be granted to employees of Nortel. Each option granted under the plan as amended and restated from time to time (the Plan) entitles the holder to purchase one common share at a subscription price of not less than 100 percent of the market value of such share on the effective date of the grant. Subscription prices are stated in U.S. dollars for U.S. options and in Canadian dollars for Canadian options. Generally, the holder has the right to exercise half of his options after one year (two years for pre-1991 grants), and the remainder after two years (three years for pre-1991 grants), from the effective date of the grant. The committee which administers the Plan has the discretion to vary the period during which the holder has the right to exercise his options and, in certain circumstances, may accelerate the right of the holder to exercise his options, but in no case shall the exercise period be later than ten years after the effective date of the grant. Each option may be granted with or without a stock appreciation right (SAR). A SAR entitles the holder to receive payment of an amount equivalent to the excess of the market value of a common share at the time of exercise of the SAR over the subscription price of the common share to which the option relates. Options with SARs may be granted on a cancellation basis, in which case the exercise of one causes the cancellation of the other, or on a simultaneous basis, in which case the exercise of one causes the exercise of the other.

The original number of common shares to be covered by options granted over the ten-year life of the Plan was ten million shares. At the 1992 annual and special meeting of shareholders of the Corporation, the shareholders approved amendments to the Plan, including increasing the maximum number of common shares to be covered by options granted to twenty-five million common shares. On April 29, 1993, the board of directors of the Corporation reserved for issuance the additional fifteen million common shares pursuant to the Plan, of which seven million were listed for issuance in June 1993 and eight million were listed for issuance in January 1995. At the 1995 annual and special meeting of shareholders of the Corporation, the shareholders approved amendments to the Plan, including removing the fixed term of the Plan, increasing the maximum number of common shares to be covered by options granted to thirty-four million common shares (not including the 4,714,755 shares issued on the exercised options prior to April 27, 1995) and increasing the maximum number of common shares with respect to which options may be made on an annual basis to 2.0 percent of the common shares issued and outstanding at the commencement of the year, commencing in 1995 and for any year thereafter. At December 31, 1995, the additional shares had not been reserved for issuance by the board of directors of the Corporation. The Corporation will provide the shares available upon exercise of options either by issuance or by purchase on the open market.

In 1993, the Corporation granted an aggregate 150,000 options exercisable after five years, and 402,200 options which were exercisable 50 percent after two years and 100 percent after three years, all from the effective date of the grant, but in no case later than ten years after such date.

In January 1995, the Corporation granted a total of 1,500,000 options pursuant to a key contributor stock option program (the Program) under the Plan. Under the terms of the Program, participants are granted an equal number of initial options and replacement options. The initial options generally vest after five years and expire ten years from the date of grant. The replacement options are granted concurrently with the initial options and also expire in ten years from the date of grant. The replacement options generally have an exercise price equal to the market value of the common shares of the Corporation on the day the initial options are fully exercised and are generally exercisable commencing thirty-six months thereafter, provided certain other conditions for exercise, including share ownership, are met.

At December 31, 1995, 5,405,905 common shares had been issued pursuant to stock option exercises and 19,594,095 common shares remained listed with various stock exchanges for issuance under the Plan (note 17).

	Outstanding				Available for Issuance
		1995	1994	1993	1995
The following is a summary of the maximum number of common shares issuable pursuant to outstanding stock options and available for future issuance:	January 1	9,968,320	7,020,295	5,416,975	10,140,525
	Increase (decrease) resulting from:				
	Grant of additional options	5,423,725	3,710,800	2,994,700	(5,423,725)
	Exercise of options	(937,500)	(429,450)	(1,166,055)	-
	Exercise of SARs	(6,650)	-	(25,675)	-
	Cancellation of options	(942,060)	(333,325)	(199,650)	942,060
	December 31	13,505,835	9,968,320	7,020,295	5,658,860
	Exercisable (vested) at December 31	6,420,338	4,708,744	2,997,355	

The 13,505,835 shares under option at December 31, 1995, are exercisable at a weighted average subscription price per share of approximately \$35.00 (C\$47.00). Options which have been granted with SARs are exercisable on a cancellation basis. As at December 31, 1995, 510,325 SARs were outstanding at a weighted average subscription price per share of approximately \$24.00 (C\$33.00). As at December 31, 1994, 727,245 SARs were outstanding at a weighted average subscription price per share of approximately \$24.00 (C\$33.00). SARs exercisable as at December 31, 1995, and 1994, were 28,000 and 47,150, respectively.

18. Stock options (continued)

			1995	1994	1993
The range of exercise prices for options exercised during the period were as follows:	U.S. dollars:	High	\$39.15	\$33.81	\$39.15
		Low	\$14.00	\$15.70	\$14.00
	Canadian dollars:	High	C\$57.31	C\$44.44	C\$44.44
		Low	C\$18.56	C\$18.56	C\$18.56

19. Currency translation adjustment

		1995	1994	1993
The following is an analysis of the currency translation adjustment included in shareholders' equity at December 31:	January 1	\$(328)	\$(294)	\$(238)
	Translation of self-sustaining operations	74	50	(88)
	Impact of foreign currency hedges	(21)	(84)	32
	December 31	\$(275)	\$(328)	\$(294)

20. Commitments

			Capital leases	Operating leases
At December 31, 1995, the future minimum lease payments under capital leases and operating leases consisted of:	Year ending December 31:	1996	\$ 5	\$149
		1997	2	122
		1998	2	77
		1999	2	52
		2000	2	39
		Thereafter	4	202
	Total future minimum lease payments		17	\$641
	Less: Imputed interest		5	
Present value of net minimum lease payments		\$12		

Rental expense on operating leases for the years ended December 31, 1995, 1994, and 1993, amounted to \$197, \$160, and \$172, respectively.

21. Contingencies

Certain holders of the Corporation's securities commenced a class action in the United States District Court for the Southern District of New York alleging that the Corporation and certain of its officers violated the Securities Exchange Act of 1934 and common law by making material misstatements of, or omitting to state, material facts relating to the business operations and prospects and financial condition of the Corporation. At this stage of this action, the Corporation cannot determine whether this action will have a material adverse impact on the consolidated financial position or results of operations of the Corporation.

Nortel, primarily as a result of its manufacturing operations, is subject to numerous environmental laws and regulations and is exposed to liabilities and compliance costs arising from its past and current generating, handling, processing, recycling, storing, discharging, and disposing of hazardous substances and wastes.

As at December 31, 1995, the accruals on the Corporation's consolidated balance sheet for environmental matters, including those referred to immediately below, were \$55. It is anticipated that a majority of the accruals will be spent over the next three years. Based on information presently available, management believes that the existing accruals are sufficient to satisfy probable and reasonably estimable environmental liabilities related to known environmental matters. Any additional liability that may result from these matters, and any additional liabilities that may result in connection with other sites currently under investigation, are not expected to have a material adverse impact on the consolidated financial position or results of operations of the Corporation.

Nortel has remedial activities under way at eleven manufacturing sites and four previously occupied sites. An estimate of Nortel's anticipated remediation costs associated with all such sites, to the extent probable and reasonably estimable, is included in the environmental accruals referred to above in an approximate amount of \$51.

Moreover, Nortel has been named as a potentially responsible party (PRP) under the U.S. Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) at five Superfund sites in the United States and is listed as a *de minimis* PRP at three of these Superfund sites. An estimate of Nortel's share of the anticipated remediation costs associated with such Superfund sites is included in the environmental accruals referred to above.

Liability under CERCLA may be imposed on a joint and several basis, without regard to the extent of Nortel's involvement. In addition, the accuracy of Nortel's estimate of environmental liability is affected by several uncertainties such as additional requirements which may be identified in connection with remedial activities, the complexity and evolution of environmental laws and regulations, and the identification of presently unknown remediation sites. Consequently, Nortel's liability could be greater than its current estimate.

22. Changes in non-cash working capital components

	1995	1994	1993
Changes in the components of working capital, excluding cash and short-term investments, notes payable, and current portion of long-term debt, for the year ended December 31 were:			
(Increase) decrease in:			
Accounts receivable	\$ (545)	\$ 60	\$ 77
Inventories	(412)	38	(193)
Prepaid expenses	14	(10)	6
Deferred income taxes	80	24	(88)
Increase (decrease) in:			
Accounts payable and accrued liabilities	(161)	(34)	(90)
Income taxes payable	(33)	76	(61)
Effect of foreign currency fluctuations on working capital items	(8)	(36)	(18)
(Increase) decrease in non-cash working capital components	\$(1,065)	\$118	\$(367)

Nortel has programs in place to sell trade receivables. At December 31, 1995, and 1994, Nortel had sold, with limited recourse, trade accounts receivable for cash proceeds of approximately \$325 and \$121, respectively, at an effective discount rate of 6.4 percent and 6.6 percent, respectively.

23. Information on business segment by geographic areas

Business segment

Nortel operates in one business segment, telecommunications equipment, which consists of the research and the design, development, manufacture, marketing, sale, financing, installation, servicing, and support of switching networks, enterprise networks, wireless networks, broadband networks, and other products and services.

Geographic area

The point of origin (the location of the selling organization) of revenues and the location of the assets determine the geographic areas.

	1995	1994	1993
The following table sets forth information by geographic area for the year ended December 31:			
Total revenues			
United States: Customers	\$ 5,812	\$ 5,437	\$ 4,431
Transfers between geographic areas	647	435	411
	6,459	5,872	4,842
Canada: Customers	1,461	1,476	1,780
Transfers between geographic areas	2,379	2,002	1,338
	3,840	3,478	3,118
Europe: Customers	2,569	1,508	1,630
Transfers between geographic areas	381	98	63
	2,950	1,606	1,693
Other: Customers	830	453	307
Transfers between geographic areas	128	116	134
	958	569	441
Elimination of transfers between geographic areas	(3,535)	(2,651)	(1,946)
Total customer revenues	\$10,672	\$ 8,874	\$ 8,148
Contribution to operating earnings (loss)			
United States	\$ 1,450	\$ 1,338	\$ 887
Canada	671	353	668
Europe	443	135	186
Other	35	7	(26)
	2,599	1,833	1,715
Research and development expense	(1,579)	(1,156)	(1,040)
General corporate expenses	(268)	(268)	(408)
Restructuring costs and other charges	-	-	(1,161)
Operating earnings (loss)	752	409	(894)
Other income less non-operating expenses	(46)	29	(176)
Gain on sales of businesses	-	131	-
Earnings (loss) before income taxes	\$ 706	\$ 569	\$(1,070)

23. Information on business segment by geographic areas (continued)

	1995	1994	1993
Identifiable assets			
United States	\$ 3,482	\$ 3,485	\$ 4,020
Canada	2,052	2,040	2,432
Europe	3,291	3,323	3,697
Other	964	453	343
Adjustments and eliminations	(1,249)	(1,218)	(1,314)
Identifiable assets	8,540	8,083	9,178
Corporate assets	902	682	307
Total assets	\$ 9,442	\$ 8,765	\$ 9,485

Transfers between geographic areas are made at prices based on total cost of the product to the supplying segment.

	1995	1994	1993
Customer revenues			
by destination for			
the year ended			
December 31 were:			
United States	\$ 5,345	\$ 4,851	\$ 4,132
Canada	1,138	1,144	1,646
Europe	2,590	1,583	1,413
Other	1,599	1,296	957
Total	\$10,672	\$ 8,874	\$ 8,148

Of the total customer revenues, including research and development, revenues from Bell Canada and other subsidiaries and associated companies of BCE, including associated companies of Nortel, accounted for \$737, \$691, and \$1,361, for 1995, 1994, and 1993, respectively. Export sales, defined as revenue from Canada to customers outside Canada, and intercompany transfers out of Canada, amounted to \$2,708 and \$2,410 for the years ending December 31, 1995, and 1994, respectively.

The restructuring costs and other charges reflected in 1993 of \$1,161 will have been incurred in the following geographic areas when the restructuring program is completed: United States – \$244; Canada – \$354; Europe – \$562; and other – \$1. Included in the \$562 allocated to Europe is a write-down of \$500 of the goodwill associated with the investment in STC PLC. Many of the restructuring initiatives will provide operating earnings benefits across Nortel's operations in Canada and the United States. As a result, the \$1,161 restructuring charge cannot be allocated based on the impact of operating earnings by region.

Operating earnings (loss) represent total revenues less operating expenses. In computing segmented operating earnings (loss), the following items have been excluded: equity in net earnings of associated companies, investment and other income (net), interest expense, general corporate expenses, research and development expense, restructuring costs and other charges, and income tax provision (recovery).

Identifiable assets are those assets of Nortel that are identified with the operations in the geographic area. Corporate assets are principally cash and short-term investments and corporate plant and equipment.

24. Financial instruments and derivative financial instruments held for purposes other than trading

Nortel enters into foreign currency forwards, swaps, and options to manage risk from exchange fluctuations. Long-term cross currency swaps are entered into for periods of three to ten years and involve either swapping the underlying debt denominated in U.S. and Canadian dollars to U.K. pounds or exchanging U.S. dollars to French francs. These transactions limit the exposure of foreign investments to changes in the respective foreign currencies. Short-term forward contracts in various currencies, mainly U.K. pounds, French francs, and Canadian dollars, are entered into over terms of thirty days to two years and are continuously renewed to limit exposure to exchange fluctuations on future revenue streams and foreign investments. At December 31, 1995, and 1994, Nortel had long-term cross currency swaps carried at the swapped value of \$716 and \$725, respectively, and net foreign currency contracts outstanding to purchase and sell the equivalent of \$1,104 and \$1,016, respectively. At December 31, 1995, Nortel also had outstanding, off-balance sheet long-term cross currency swaps of \$268. These contracts swap U.S. dollars for French francs as a hedge of the net investment in France. During 1995, Nortel entered into U.S. to Canadian dollar option contracts intended to hedge the U.S. to Canadian dollar exposure on future revenue streams. As at December 31, 1995, there were no option contracts outstanding.

Nortel enters into interest rate swap agreements to minimize financing costs on long-term debt and to manage interest rate risk on existing liabilities and receivables due to interest rate fluctuations. These agreements are denominated in various currencies and are swapped from floating rate payments to fixed rate payments or vice versa. The terms are related to the hedged item and cover periods of four to ten years. At December 31, 1995, and 1994, Nortel had obligations to pay fixed rates ranging between 3.78 percent and 13.23 percent on notional principal amounts of \$1,022 and \$1,083, respectively, and pay floating rates on notional principal amounts of \$476 and \$540, respectively. The notional principal amount used to calculate the net interest paid or received on an interest rate swap is not recorded in the financial statements since this notional principal amount is not exchanged by the counterparties and it is not a measure of the risk exposure. The on-balance sheet cross currency swaps have an interest rate swap component resulting in obligations to pay floating rates on \$716 and \$725, at December 31, 1995, and 1994, respectively. At December 31, 1995, and 1994, these floating positions were ultimately swapped to fixed rates on \$462 and \$468, respectively, as summarized in note 15.

In addition, at December 31, 1995, and 1994, Nortel had outstanding guarantees of \$287 and \$343, respectively, which represent bid, performance, advance payment, and financial guarantees.

Nortel is exposed to credit risk in the event of nonperformance, but does not anticipate nonperformance by any of the counterparties. Nortel believes that there is no substantial concentration of credit risk resulting from these interest rate swap, cross currency swap, and foreign currency forward agreements. In addition, Nortel is exposed to credit risk from customers and suppliers. However, Nortel's global orientation has resulted in a large number of diverse customers and suppliers which minimizes concentrations of credit risk.

	1995		1994	
	Carrying amount	Fair value	Carrying amount	Fair value
At December 31, the cost values for all financial instruments approximate fair values with the following exceptions:				
Financial assets:				
Long-term receivables	\$ 376	\$ 376	\$ 339	\$ 342
Financial liabilities:				
Long-term debt due within one year	317	321	25	26
Long-term debt	1,236	1,286	1,507	1,434
Off-balance sheet derivative financial instruments held for purposes other than trading, net asset (liability) position:*				
Cross currency swaps	-	(5)	-	-
Interest rate swap agreements - short-term	-	(2)	-	(3)
Interest rate swap agreements - long-term	-	(8)	-	29
Foreign currency forward contracts	-	4	-	-

* Trade receivable securitization balances are summarized in note 22. Long-term receivables of approximately \$385 and \$285 had also been sold, with limited recourse, as at December 31, 1995, and 1994, respectively.

The fair values have been estimated by management using available market information and appropriate valuation methodologies. Specifically, long-term debt instruments reflect a current yield valuation based on Nortel's incremental borrowing rate, interest rate swaps reflect the present value of the potential gain or loss if settlement were to take place on December 31, and long-term receivables reflect the discounted cash flows. Accordingly, the estimates presented above are not necessarily indicative of the amounts that Nortel could potentially realize in a current market exchange.

Pursuant to certain financing agreements, Nortel is committed to provide future financing in connection with purchases of Nortel's products and services. These commitments totaled approximately \$650 as at December 31, 1995.

25. Unused bank lines of credit

At December 31, 1995, the Corporation and certain subsidiary companies had total unused committed bank lines of credit, generally available at rates slightly above LIBOR, of approximately \$1,600.

26. Comparative Figures

Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year's presentation.

Consolidated Ten-Year Review

(millions of U.S. dollars except per share figures)
(unaudited)

	1995	1994*
Earnings and related data		
Revenues	\$10,672	\$8,874
Cost of revenues	6,379	5,605
Selling, general, and administrative expense	1,923	1,681
Research and development expense	1,579	1,156
Depreciation on plant and equipment	430	390
Income tax provision (recovery)	233	161
Earnings (loss) before extraordinary items	473	408
Net earnings (loss) applicable to common shares	469	404
Earnings (loss) per revenue dollar (cents)	4	5
Earnings (loss) per common share (dollars)	1.85	1.60
Dividends per share (dollars)	.42	.36
Financial position at December 31		
Working capital	2,070	2,160
Plant and equipment (at cost)	4,533	3,910
Accumulated depreciation	2,610	2,205
Total assets	9,442	8,765
Long-term debt	1,236	1,507
Redeemable retractable preferred shares	—	—
Redeemable preferred shares	73	73
Common shareholders' equity	3,798	3,355
Return on common shareholders' equity	13.1%	12.7%
Capital expenditures	577	389
Employees at December 31	63,715[†]	57,054

Quarterly Financial Data

Summarized consolidated quarterly financial data for 1995 and 1994 are as follows:

Revenues
Gross profit
Net earnings (loss)
Net earnings (loss) applicable to common shares
Earnings (loss) per common share
Weighted average number of common shares outstanding (millions)

Revenues by Principal Product Lines

	1995	1994*
Switching networks	\$ 4,231	\$3,932
Enterprise networks	3,245	2,465
Broadband networks	1,113	933
Wireless networks	1,554	893
Other [‡]	529	651
Total	\$10,672	\$8,874

* Comparative amounts have been restated to conform with the current year's presentation.

[†] Includes Nortel's proportionate share of the employees of Matra Communication S.A.S.

[‡] Includes interest income of the finance subsidiaries and cable and outside plant revenue.

1993*	1992*	1991*	1990*	1989*	1988*	1987*	1986*
\$8,148	\$8,409	\$8,183	\$6,769	\$6,106	\$5,408	\$4,915	\$4,440
5,199	4,902	4,673	4,017	3,665	3,177	2,886	2,734
1,598	1,551	1,597	1,247	1,131	1,088	938	782
1,040	977	968	779	733	698	573	458
426	422	435	342	319	294	264	249
(192)	274	264	220	191	104	186	164
(878)	548	515	460	377	183	347	313
(884)	536	497	436	354	166	329	287
(11)	6	6	6	6	3	7	7
(3.54)	2.17	2.03	1.80	1.47	.70	1.39	1.23
.36	.34	.32	.30	.28	.26	.23	.20
665	746	172	1,237	1,024	536	639	1,379
4,026	3,923	3,907	3,259	3,045	2,815	2,349	1,979
2,127	1,993	1,920	1,707	1,560	1,334	1,086	879
9,485	9,379	9,534	6,842	6,310	5,801	5,006	3,958
1,512	1,147	1,161	798	816	578	430	212
-	-	170	170	173	168	154	281
73	154	73	73	73	73	73	73
3,014	3,967	3,676	3,224	2,696	2,431	2,333	1,895
(25.3)%	14.0%	14.4%	14.7%	13.8%	7.0%	15.6%	16.3%
471	572	514	442	370	501	417	305
60,293	57,955	57,059	49,039	47,572	50,136	48,778	46,202

4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
1995	1994	1995	1994	1995	1994	1995	1994
\$3,496	\$2,749	\$2,487	\$2,003	\$2,442	\$2,123	\$2,247	\$1,999
1,421	1,121	1,013	727	997	729	862	692
250	225	81	57	80	38	62	88
249	224	80	56	79	37	61	87
.98	.88	.32	.22	.31	.15	.24	.35
254	253	254	252	254	252	253	251

1993*	1992*	1991*	1990*
\$3,760	\$3,974	\$4,009	\$3,505
2,220	2,106	1,901	1,583
753	874	850	714
473	287	276	226
942	1,168	1,147	741
\$8,148	\$8,409	\$8,183	\$6,769

Environmental Progress Report

Nortel's environmental policy recognizes the critical link between a healthy environment and economic growth. The corporation subscribes to the principle of product stewardship and is working towards taking responsibility for the environmental impacts of products throughout their lifecycles – from design to final disposition.

Nortel works with stakeholders to promote innovative solutions to industry environmental problems and participates in international technology cooperation efforts. In 1995, the corporation shared its expertise in the elimination of ozone-depleting chemicals with industry in China, Vietnam, and Brazil.

This is the third year Nortel is reporting on its environmental progress using the PERI Guidelines.¹ Several facilities improved their data gathering and environmental monitoring processes in 1995 and reviewed their 1994 figures. Some data reported in the 1994 Annual Report have been restated as a result.²

This report summarizes some aspects of environmental performance at substantially all wholly owned manufacturing and research locations in North America, Europe, and Asia Pacific. Performance data from one manufacturing location in Mexico, four in Malaysia, and one in Thailand are included this year for the first time.

Management Approach

In 1994, the corporation introduced an Environmental Management System (EMS) standard. Designed to reflect the requirements of ISO 14001,³ the EMS standard stresses that environmental protection is a systematic and ongoing process. The standard was adopted by several pilot facilities in 1994, and the implementation phase moved forward in 1995. As more facilities adopt the standard, Nortel's ability to systematically scrutinize activities and target resources to areas of maximum concern is strengthened.

At Nortel, environmental management is everyone's responsibility. An annual Nortel awards program recognizes the leadership of employees in meeting the corporation's commitment to the environment. Winning projects in 1995 included an environmentally sound design for a new research facility, solid waste reduction programs, and the development of a nature reserve on a vacant parcel of industrial land.

Business units are required to operate within the framework of the corporate environmental policy, pursuant to which Dr. Margaret Kerr, senior vice-president, environment, ethics, and quality, has responsibility for developing standards and programs. Dr. Kerr reports to the executive vice-president, corporate, and serves as secretary to the social responsibility

committee, the board committee directly responsible for, among other things, overseeing the corporation's commitment to environmental leadership.

Environmental Performance

In 1994, Nortel announced four environmental targets for the year 2000. The base year for each target is 1993.

- Reduce pollutant releases (air, water, hazardous waste) by 50 percent.
- Reduce solid waste sent for disposal by 50 percent.
- Reduce paper purchases by 30 percent.
- Improve overall energy efficiency by 10 percent.

The targets represent minimum global goals: progress is measured by monitoring changes in aggregate, absolute figures.

The Environmental Performance Index (EPI) uses the annual cost of sales as a normalizing factor to portray performance relative to production. The EPI provides a single overall rating of the corporation's performance against its stated goals and involves measurement of more than twenty parameters. Each parameter is weighted according to criteria such as environmental impact and degree of risk. Each year, performance is measured against the 1993 baseline (which was assigned an EPI score of 100 points) and the previous year's performance. Any annual score greater than 100, therefore, indicates positive progress (i.e., reduced environmental impact and risk) in that year as compared to the previous year or the baseline.

Nortel's 1995 EPI score is 140. While this represents progress, it is progress at a slower rate than that represented by the optimal annual score of 175. Actions are now being taken to accelerate the rate of performance improvement.

The following is a summary of data⁴ from substantially all wholly owned manufacturing and research facilities in North America, Europe, and Asia Pacific:

- Air emissions from manufacturing and research processes increased by 26 percent in 1995 to 254 tons, from 202 tons in 1994.⁵ The increase is due in part to the first-time reporting of air emissions by a facility that released approximately 43 tons. The majority of Nortel's process-related emissions are alcohol-based solvents.
- Greenhouse gas emissions for 1995 were calculated using U.S. EPA emission factors for all combustion sources, and totaled 39,000 tons, a decline of 12 percent (5,100 tons) from 1994.

¹ Public Environmental Reporting Initiative: a voluntary industry initiative that produced guidelines encouraging organizations to initiate and expand public environmental reporting.

² The 1994 figure for air emissions is approximately 1 percent lower than that reported in the 1994 report; figures for energy consumption and greenhouse gas emissions are approximately 1 percent higher. Paper purchases reported in the 1994 Annual Report were largely based on estimates. More work was done in 1995 to analyze actual purchasing records, and the 1994 figure has been restated as a result. The water consumption figure reported in the 1994 Annual Report is restated here based on further review of records at some facilities. Due to the foregoing restatements, the 1994 EPI score is restated at 136.

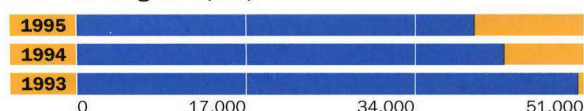
³ ISO 14001 – the EMS standard prepared under the direction of the International Organization for Standardization. Currently in draft form.

⁴ Solid waste data for Asia Pacific were not available. The completeness of the other data varies slightly among facilities.

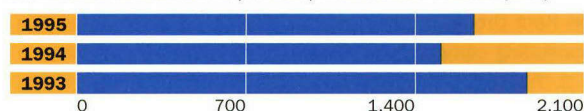
⁵ These figures include all government-reportable emissions, such as SARA Title III in the U.S. and NPRI in Canada.

- Water discharges decreased by 38 percent in 1995 to 95 tons, from 152 tons in 1994. The decrease reflects lower discharges in 1995 from one location that conducted periodic maintenance of its water treatment equipment in 1994. Nortel's water discharges are mostly inorganic in nature and consist of substances such as sodium, chlorides, and sulfates.
- Hazardous wastes sent for off-site management amounted to 1,290 tons in 1995, 12 percent more than the 1,150 tons reported in 1994. Of the 1995 total, 50 percent was recycled, reclaimed, or treated.
- The amount of solid non-hazardous waste landfilled by Nortel increased 1 percent from 10,500 tons in 1994 to 10,600 tons in 1995. Approximately 60 percent of all solid waste generated in 1995 was recycled.
- Total energy use declined by 0.3 percent from 1994 levels of 3,055 billion British Thermal Units (BTU), to 3,047 billion BTU in 1995. The figure consists of electricity, natural gas, fuel oil, gasoline, and propane used for heating/cooling buildings and in manufacturing/assembly processes.
- In 1995, paper purchases decreased by 16 percent from 1994 levels to 2,315 tons.

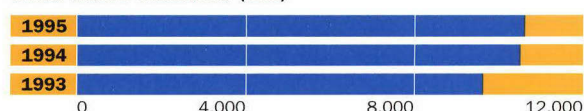
Greenhouse gases (tons)



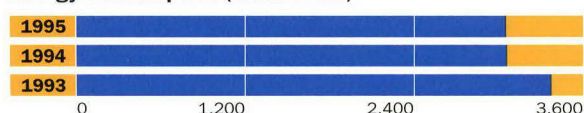
Pollutant releases: air, water, hazardous waste (tons)



Solid waste landfilled (tons)



Energy consumption (billions of BTU)



Paper purchases (tons)



- Water consumption in 1995 decreased by 6 percent to 706 million gallons from 755 million gallons in 1994.

In addition to tracking progress against targets, Nortel monitors performance through audits, conducted by external and internal auditors. Environmental audits of manufacturing and research facilities are required to be conducted every eighteen to twenty-four months. An integrated environment, health and safety (EHS) audit protocol was introduced in 1994, in recognition of the close links among these three disciplines. Nortel policy commits the corporation to protecting and enhancing the health and safety of its employees. The corporation also has policies supporting a smoke-free and drug-free workplace. The EHS audit assesses, among other things, the locations' environmental management systems and their adherence to minimum requirements in such areas as ergonomics, accident and injury prevention, and emergency response programs, as set out in the Corporate Health and Safety Standard. This year, sixteen sites were audited against the EHS audit protocol.

Nortel's environmental policy states that the corporation will comply with applicable legal and regulatory requirements. In 1995, no fines or penalties were issued to Nortel for environmental infractions.

In 1995, Nortel had remedial activities under way at eleven manufacturing sites and four previously occupied sites. An estimate of Nortel's anticipated remediation costs associated with all such sites, to the extent probable and reasonably estimable, is included in the environmental accruals referred to below in an approximate amount of \$51 million.

Moreover, Nortel has been named as a potentially responsible party (PRP) at five Superfund sites in the United States and is listed as a *de minimis* PRP at three of these sites. An estimate of Nortel's share of the anticipated remediation costs associated with such Superfund sites is included in the environmental accruals referred to below.

As at December 31, 1995, the accruals on the Corporation's consolidated balance sheet for environmental matters, including those referred to above, were \$55 million. It is anticipated that a majority of the accruals will be spent over the next three years. Based on information presently available, management believes that the existing accruals are sufficient to satisfy probable and reasonably estimable environmental liabilities related to known environmental matters. Any additional liability that may result from these matters and any additional liabilities that may result in connection with other sites currently under investigation, are not expected to have a material adverse impact on the consolidated financial position or results of operations of the Corporation.

Directors

The board of directors, which met thirteen times in 1995, is responsible for the management of the corporation's business. Directors serve on one or more of the board committees.

Committees

- 1 International Advisory
- 2 North American Advisory
- 3 Audit
- 4 Committee on Directors
- 5 Executive
- 6 Management Resources and Compensation
- 7 Pension Fund Policy
- 8 Social Responsibility
- 9 Stock Option Plan
- 10 Customer Finance

* Chairman

Donald J. Schuenke

Elm Grove, Wisconsin
Chairman of the Board
Northern Telecom Limited
Former Chairman of the Board
The Northwestern Mutual Life Insurance Company
(life insurance company)
3,* 4, 5,* 10

Jean C. Monty, C.M.

Toronto, Ontario
President and
Chief Executive Officer
Northern Telecom Limited
5

Ralph MacKenzie Barford

Toronto, Ontario
President
Valleydene Corporation Limited
(private investment company)
1, 3, 4, 5, 10*

Frank C. Carlucci

McLean, Virginia
Chairman
The Carlyle Group
(merchant banking firm)
1,* 8

J.V. Raymond Cyr, O.C.

Montréal, Québec
Chairman of the Board
Bell Canada
(telecommunications services and equipment supply company)
2, 7,* 8

Gerald V. Dirvin

Cincinnati, Ohio
Corporate Director
Former Executive Vice-President
Procter & Gamble Company
(consumer products company)
1, 6, 8, 9, 10

L. Yves Fortier, C.C., Q.C.

Westmount, Québec
Chairman and Senior Partner
Ogilvy Renault
(law firm)
1, 3, 7, 9

Betty Kennedy, O.C.

Milton, Ontario
Broadcast Journalist
2, 4, 6, 8,* 9

Geraldine A.

Kenney-Wallace
Toronto, Ontario
Senior Fellow, Faculty of Management
University of Toronto
1, 3, 7

Bowie K. Kuhn

Ponte Vedra Beach, Florida
President
The Kent Group, Inc.
(consulting company)
2, 3, 7

Hon. E. Peter Lougheed, P.C., C.C., Q.C.

Calgary, Alberta
Partner
Bennett Jones Verchere
(law firm)
2, 6, 8, 9

Paul F. Orefice

Lake Tahoe, Nevada
Corporate Director
Former Chairman of the Board
The Dow Chemical Company
(manufacturer of chemicals and related products)
1, 4, 6,* 9,* 10

Sherwood H. Smith, Jr.

Raleigh, North Carolina
Chairman of the Board and
Chief Executive Officer
Carolina Power & Light Company
(electric utility company)
2,* 5, 7, 10

L. R. Wilson

Montréal, Québec
Chairman, President, and
Chief Executive Officer
BCE Inc.
(telecommunications company)
1, 4,* 5, 6

Officers of the Corporation

Effective March 1, 1996

Jean C. Monty

President and
Chief Executive Officer

Clive V. Allen

Senior Vice-President
and General Counsel

David D. Archibald

Vice-President and
Deputy General Counsel

David A. Ball†

Senior Vice-President
and President,
Nortel Limited

Jacques B. Bérubé†

Senior Vice-President
and President,
Nortel Europe

David L. Burn

Vice-President,
Taxation

Clarence J. Chandran*

Senior Vice-President
and President,
Public Carrier Networks

Peter J. Chilibeck

Corporate Secretary and
Assistant General Counsel

J. (Ian) A. Craig*

Senior Vice-President
and President,
Broadband Networks

Peter W. Currie

Senior Vice-President and
Chief Financial Officer

Gary R. Donahee†

Senior Vice-President
and President,
Nortel CALA

Adrian J. Donoghue

Vice-President and
Controller

Frank A. Dunn*

Vice-President,
Operations Finance, and
Vice-President, Finance,
Nortel North America

Richard P. Faletti*

Senior Vice-President
and President,
Multimedia
Communication Systems

W. Brian Hewat

Executive Vice-President

Jérôme P. Huret†

Senior Vice-President,
Strategy and International
Development,
Nortel World Trade

Margaret G. Kerr

Senior Vice-President,
Environment, Ethics,
and Quality

William R. Kerr

Vice-President
and Treasurer

Anthony J. Lafleur

Vice-President,
Associate General Counsel
and Assistant Secretary

James R. Long†

Executive Vice-President
and President,
Nortel World Trade

Arthur A. MacDonald*

Senior Vice-President

Donald S. McCreesh

Senior Vice-President,
Human Resources

John A. Roth*

Chief Operating Officer
and President,
Nortel North America

Gedas A. Sakus*

Senior Vice-President
and President,
Nortel Technology,
and Chairman,
Bell-Northern Research Ltd.

Elliot S. Schreiber

Senior Vice-President,
Corporate Communications

C. Wes M. Scott

Executive Vice-President,
Corporate

George C. Smyth*

Senior Vice-President
and President,
Bell-Northern Research

Gordon H. Sumner

Vice-President and
General Auditor

David A. Twyver*

Senior Vice-President
and President,
Wireless Systems

David J. S. Winfield

Senior Vice-President,
Government Relations

Philip Yu†

Senior Vice-President
and Chairman and Chief
Executive Officer,
Nortel China

Operating Groups

* Nortel North America

† Nortel World Trade

Principal Subsidiaries, Affiliates, and Joint Ventures

Northern Telecom Inc.

Northern Telecom Plaza
200 Athens Way
Nashville, Tennessee
U.S.A. 37228-1397
Tel: (615) 734-4000
Fax: (615) 734-5190

Nortel Limited

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England SL6 1AY
Tel: (44)(1)(628) 812-000
Fax: (44)(1)(628) 812-810

Advanced Semiconductor Manufacturing Corporation of Shanghai

385 Hong Cao Road
Shanghai 200233
People's Republic of China
Tel: (86)(21) 6485-1900
Fax: (86)(21) 6485-1056

Bell-Northern Research Ltd.

3500 Carling Avenue
Nepean, Ontario
Canada K2H 8E9
Tel: (613) 763-2211
Fax: (613) 763-2626

BNR INC.

35 Davis Drive
Research Triangle Park
North Carolina
U.S.A. 27709
Tel: (919) 991-7000
Fax: (919) 991-7001

Brock Telecom Limited

100 Strowger Boulevard
Brockville, Ontario
Canada K6V 5W8
Tel: (613) 342-6621
Fax: (613) 498-3601

Guangdong Nortel

Telecommunications

Switching Equipment Limited

Gui Zhou Rong Li Industrial Park
Liu Heng Lu
Shunde 528306, Guangdong
People's Republic of China
Tel: (86)(765) 662-1515
Fax: (86)(765) 662-1535

Matra Communication S.A.S.

Rue Jean-Pierre Timbaud
B.P. 26
78392 Bois-d'Arcy Cedex
France
Tel: (33)(1) 34 60 70 00
Fax: (33)(1) 34 60 87 84

Netas-Northern Electric Telekomünikasyon A.S.

Alemdağ Caddesi
Ümraniye, 81244
Istanbul
Turkey
Tel: (90)(216) 344 00 44
Fax: (90)(216) 335 69 58

Nortel Australia Pty Limited

Level 5
475-495 Victoria Avenue
Chatswood, NSW 2067
Australia
Tel: (61)(2) 325-5200
Fax: (61)(2) 325-5222

Nortel CALA Inc.

1500 Concord Terrace
Sunrise, Florida
U.S.A. 33323-2815
Tel: (954) 851-8000

Nortel Dasa Network Systems GmbH & Co. KG

Lyoner Strasse 15
D-60528 Frankfurt
Germany
Tel: (49)(69) 6697-0
Fax: (49)(69) 6697-1111

Nortel France S.A.

Parc Leonard de Vinci
15 av. Alexander Graham Bell
Marne-la-Vallée
77607 Bussy Saint Georges
France
Tel: (33)(1) 64 76 76 76
Fax: (33)(1) 64 76 76 00

Nortel Matra Cellular SCA

1, Place des Frères
Montgolfier
B.P. 50
78042 Guyancourt Cedex
France
Tel: (33)(1) 34 52 52 52
Fax: (33)(1) 34 52 50 00

Nortel Post and Telecommunications Technical Inc.

No. 18 Shun San Tiao
Tie Jiang Ying
Fengtai District
Beijing 100078
People's Republic of China
Tel: (86)(10) 761-7771
Fax: (86)(10) 761-2808

Northern Telecom (Asia) Limited

34th Floor, Central Plaza
18 Harbour Road, Wanchai
Hong Kong
Tel: (852)(2) 585-2888
Fax: (852)(2) 827-7719

Northern Telecom de Colombia S.A.

Carrera 14, No. 94 - 81
Piso 2, 3, 4
Santa Fe de Bogotá,
Colombia
Tel: (57)(1) 622-0010
Fax: (57)(1) 616-2302 or
616-3665

Northern Telecom de México, S.A. de C.V.

Insurgentes Sur 1605 piso 30
Col. San Jose Insurgentes
Deleg. Alvaro Obregon
03900 México, D.F.
Tel: (52)(5) 325-2100
Fax: (52)(5) 325-2199

Northern Telecom do Brasil Indústria e Comércio Ltda.

Av. das Nações Unidas,
17891
4º Andar
Santo Amaro
São Paulo, SP
Brasil
CEP 04795-100
Tel: (55)(11) 882-4900
Fax: (55)(11) 882-4989
or 882-4990

Northern Telecom Industries Sdn. Bhd.

Phase I, Free Industrial Zone
11900 Bayan Lepas
Penang
West Malaysia
Tel: (60)(4) 643-4211
Fax: (60)(4) 643-4518

Northern Telecom International Finance B.V.

Siriusdreef 17-27
2132 WT Hoofddorp
The Netherlands
Tel: (31)(2356) 73173
Fax: (31)(2356) 11400

Northern Telecom (Ireland) Limited

Galway Industrial Estate,
Mervue
Galway, Republic of Ireland
Tel: (353)(91) 757671
Fax: (353)(91) 755431

Northern Telecom Japan Inc.

3-19-23 Minami-Azabu
Minato-ku, Tokyo 106
Japan
Tel: (81)(3) 3441-1881
Fax: (81)(3) 3280-9486

Northern Telecom (Luxembourg) S.A.

3, Boulevard Royal
Luxembourg L-2449
Luxembourg
Tel: (352) 466233
Fax: (352) 466234

Northern Telecom S.A.

Avenida de las
Dos Castillas 33-1
Edificio 2 Atica
Pozuelo de Alarcón
28224 Madrid
Spain
Tel: (34)(1) 352-0040
Fax: (34)(1) 352-5444

Shanghai Nortel Semiconductor Corporation

300 Tian Lin Road
4/F Tian Lin Building
Shanghai 200233
People's Republic of China
Tel: (86)(21) 6485-3816
Fax: (86)(21) 6485-5661

Shenyang Nortel Telecommunications Co., Ltd.

79 Nanshi Street
Heping District
Shenyang
Liaoning Province 110005
People's Republic of China
Tel: (86)(24) 339-0425
Fax: (86)(24) 339-0426

Sixtel S.p.A.

Via G. Jervis 77
10015 Ivrea
Italy
Tel: (39)(125) 5200
Fax: (39)(125) 521863

Southern Information Systems, Inc.

No. 4, R&D Road III
Science-Based
Industrial Park
Hsing-Chu
Taiwan
Republic of China
Tel: (886)(35) 784 838
Fax: (886)(35) 777 186

Tong Guang-Nortel Limited Liability Company

Chiwan Road
P.O. Box Shekou 186
Shekou, Shenzhen 518068
People's Republic of China
Tel: (86)(755) 669-3039
Fax: (86)(755) 669-3742

All 100 percent owned except:

Advanced Semiconductor Manufacturing Corporation of Shanghai (34 percent)
Bell-Northern Research Ltd. (70 percent)
Guangdong Nortel Telecommunications Switching Equipment Limited (40 percent)
Matra Communication S.A.S. (50 percent)
Netas-Northern Electric Telekomünikasyon A.S. (51.85 percent)
Nortel Dasa Network Systems GmbH & Co. KG (50 percent)
Nortel France S.A. (82 percent)
Nortel Matra Cellular SCA (66 percent)
Nortel Post and Telecommunications Technical Inc. (60 percent)
Shanghai Nortel Semiconductor Corporation (70 percent)
Shenyang Nortel Telecommunications Co., Ltd. (55 percent)
Sixtel S.p.A. (49 percent)
Southern Information Systems, Inc. (25 percent)
Tong Guang-Nortel Limited Liability Company (55 percent)

Corporate Information

Corporate Headquarters: Northern Telecom Limited

2920 Matheson
Boulevard East
Mississauga, Ontario
L4W 4M7 Canada
Tel: (905) 238-7000
Fax: (905) 238-7350

Listing of stock

The common shares are listed on the New York, Toronto, Montréal, Vancouver, and London stock exchanges.

Annual Meeting

The annual meeting of shareholders will take place at 11:15 a.m. (local time), Friday, April 26, 1996, in The Westin Hotel, Belaire and Mayfair Rooms, Calgary, Alberta, Canada.

Form 10-K

The Form 10-K annual report for 1995, as filed with the United States Securities and Exchange Commission, is available without charge upon request to:
Investor Relations,
Northern Telecom Limited,
3 Robert Speck Parkway,
Mississauga, Ontario,
L4Z 3C8 Canada.

Chinese, French, German, and Spanish versions

of this annual report are available upon request to:
Investor Relations,
Northern Telecom Limited,
3 Robert Speck Parkway,
Mississauga, Ontario,
L4Z 3C8 Canada.

Dividend reinvestment and stock purchase plan

Registered holders of common shares of the Corporation wishing to purchase additional common shares may participate in a convenient investment plan. Quarterly dividends may be reinvested automatically to purchase additional common shares at the average market price (calculated during a fixed period each quarter). Common shares may also be purchased at the average market price by voluntary cash payments of as little as US\$40 to a maximum of US\$5,000 during a quarter. In either case, there are no brokerage fees or other service charges. Additional information may be obtained from:

Dividend Reinvestment
Services
Montreal Trust
Company of Canada
151 Front Street West
8th Floor
Toronto, Ontario
M5J 2N1 Canada
Tel: (416) 981-9633

Transfer Agents and Registrars

Montreal Trust
Company of Canada
Toronto, Montréal,
and Vancouver

The Bank of Nova
Scotia Trust Company
of New York
New York, New York

The R-M Trust Company
Ilford, Essex, England

Trademarks

The terms A WORLD OF NETWORKS, COMPANION, CORNERSTONE, DMS, DMS-100/200, DMS-250, DMS-300, MAGELLAN, MERIDIAN 1, NORSTAR, NORTEL, PASSPORT, PROXIMITY, RAPPORT, and SERVICEBUILDER are trademarks of the Corporation.

INTEGRATED COMMUNITY NETWORKS is a service mark of the Corporation.

SITA is a trademark of the Société internationale de télécommunications aéronautiques.

On the Internet

Information about Nortel is now available on the Internet's World Wide Web (WWW) at:

<http://www.nortel.com>

Common Share Dividend Record and Payment Dates for 1996

Record Date	Deadline for Receipt of Optional Cash Payments	Payment Date/ Investment Date
<i>March 11</i>	<i>March 28</i>	<i>March 29</i>
<i>June 7</i>	<i>June 27</i>	<i>June 28</i>
<i>September 6</i>	<i>September 27</i>	<i>September 30</i>
<i>December 6</i>	<i>December 30</i>	<i>December 31</i>



Consistent with our commitment to the protection and enhancement of the environment, the 1995 Annual Report paper contains 50 percent post-commercial recycled fiber with 10 percent post-consumer waste.

Breakfast Meeting with Nortel Directors

Mr. Wolfensohn:

The breakfast starts at 7.00. You will be introduced by Nortel's Chairman Don Schuenke. You are scheduled to speak at 7.25 for twenty minutes followed by 10 minutes Q&A. The breakfast will conclude at 8.15.

Your remarks should be informal. They would like to hear about your views on the Bank's role in the 21st century and the Bank's re-organization. They are particularly interested in how the Bank will manage the transformation from the traditional role of supporting public sector projects to supporting projects resulting from privatization. You may also want to talk about InfoDev.

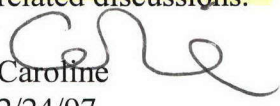
We have just heard that Nortel will be sponsoring the Toronto Conference in June. You will want to thank them. EDI would like to try and persuade Nortel's CEO Jean Monty to participate in the Plenary panel on Monday evening, June 23rd, on the role of the private sector in building and sustaining knowledge capital in developing countries.

I enclose talking points, a brief on IFC and Nortel, and on the World Bank and Telecommunications in the Private Sector. I also enclose Nortel's Annual Report and short bios on the Board of Directors.

Nortel's strategic markets are: Australia, China, Germany, Mexico, U.S., Brazil, Colombia, India, Turkey, Vietnam, Canada, France, Japan, U.K. and Taiwan.

The meeting offers a good opportunity to push Nortel to become more active with the Bank Group both on the procurement front and the direct investment front. As one of the largest producers of telecom equipment in the world they have been slow to utilize the Bank group's financial instruments and market knowledge. The IFC brief outlines their current involvement with us.

InfoDev- Companies like IBM, Motorola, and STET-Italy have already joined the Information for Development program as donors. Nortel could also become a donor and help the expansion of information technology markets in developing countries via the *Infodev* agenda. Messrs. James Bond and Carlos Braga can serve as contacts for *Infodev* related discussions.


Caroline

2/24/97

Brief for Mr. Wolfensohn's Address to the Board of Directors of
Northern Telecom (Nortel), February 27, 1997

1. Background

Nortel was founded in 1895. It has evolved from being a small Canadian telephone equipment supplier into one of the major providers of digital equipment and a leading developer of broadband networks. It is currently the fourth largest telecommunications equipment manufacturer in the world. Nortel technology can be found at the core of the communication networks of companies like Federal Express and Videotron (a large cable operator in North America and the UK). Nortel is a subsidiary of Bell Canada Enterprises and its revenues amounted to US\$12.8 billion in 1996 (the company has approximately 68,000 employees worldwide).

2. The World Bank Group Approach to Telecommunications

Information has become a key element in maintaining competitiveness in the global economy as well as alleviating poverty, addressing environmental problems, and promoting cultural values. Countries that fail to develop effective applications of information technology will increasingly fall behind. Developing economies are no exception.

The main challenges for developing countries are: (i) to build modern telecommunication networks in a rapid and efficient manner (just to keep up with demand for basic telephone services, developing economies will have to invest US\$60 billion annually in the second-half of the 1990s; over the 1990-94 period these investments, public and private, averaged US\$30 billion annually); (ii) to develop skilled human resources able to process information and disseminate knowledge; and (iii) to create an information and investment-"friendly" environment.

Until the mid-1980s, the Bank's telecommunications operations focused on lending for modernizing or expanding public telecommunications networks as well as improving the performance of the operating enterprises (typically state-owned monopolies). In the late 1980s, emphasis shifted toward creating conditions conducive to private investment in increasingly competitive market structures. More recently, the Bank has also begun to back projects focusing on innovative applications -- e.g., distance education -- via initiatives like *infoDev* (the Information for Development Program). As of June 30, 1995, the Bank had supported 135 stand-alone telecommunications projects mobilizing more than US\$20 billion in 54 countries through 89 IBRD loans (US\$4.8 billion) and 46 IDA credits (US\$1.5 billion). The telecommunications-related operations of the International Finance Corporation (IFC), in turn, have encompassed 25 projects in 20 countries (mobilizing US\$1.8 billion).

The World Bank Group's view is that telecommunications operators perform best when run as commercial profit-making businesses in a competitive environment. Private investments (as much as US\$30 billion per year) will be essential to fund the expansion of basic telecommunications in developing economies in the years ahead. The Bank advocates using scarce resources mainly to support reforms likely to mobilize private capital and improve management. These reforms emphasize: (i) the private provision of most telecommunication services; (ii) a regime of open entry and competition; and (iii) the establishment of a pro-competitive regulatory environment, with laws and regulations that ensure a level playing-field in areas like pricing, interconnection, spectrum management, and intellectual property rights.

These reforms provide the main thrust for IBRD's impact on the private sector. Financial support for state enterprises is contingent on firm commitment to sector reform (including, where appropriate, establishing a plan and timetable for transferring ownership to the private sector). The Bank Group can also provide credit and risk guarantees when this is essential to enable private investment in existing or new telecommunications enterprises. Temporary loss of foreign exchange revenues resulting from changes in

the international settlements regime (which is becoming increasingly cost-based) can be covered by sector policy adjustment loans. The International Finance Corporation, in turn, supports private enterprises in the telecommunications sector via loans, loan syndication, equity investments, security underwriting, and other financial instruments.

In addition to the above services, the World Bank Group promotes activities designed to raise awareness about the opportunities and challenges of the information age for developing countries, building constituencies for change, and developing new applications of telecommunications and information systems to education, health, public sector management, banking and trade. An important mechanism for these activities is *infoDev*.

Since its beginning in September 1995, the Information for Development Program (*infoDev*) has promoted new partnerships between private companies, governments and multilateral donors—linking the interests of potential investors to the objectivity and development goals of public donors. The current *infoDev* work program supports projects in the areas of policy reform and consensus building; innovative applications of information technology to trade, environment, education and health; and training for the introduction of new services and technologies (see quarterly report attached). Among *infoDev* projects, the one with the most immediate impact on companies like Nortel is the recently completed *Participation of Emerging Economies in WTO Telecommunication Negotiations*.

The objective of the *WTO* project was to assist developing countries in preparing, assessing and improving their offers to the basic telecommunications negotiations which were concluded successfully on February 15, 1997. It funded regional workshops and technical assistance missions to developing countries to increase their participation in the *WTO* process. *infoDev* was cited by Messrs. Renato Ruggiero, Director-General of the *WTO* and Reed Hundt, Chairman of the FCC, as having contributed significantly to the positive outcome of these negotiations.

3. Possible Topics of Discussion

- Regulatory reform and privatization: The Telecommunications and Informatics Division of the World Bank is engaged in promoting sustained regulatory reform and assisting with privatization efforts in developing economies. In particular, technical assistance for countries to comply with their regulatory commitments under the *WTO* are now being developed in the context of *infoDev*. Messrs. James Bond and Bjorn Wellenius (IENTI) can serve as contacts in this area.
- Nortel's Relationship with the World Bank Group: There are ongoing discussions with IFC focusing on a joint project in Sri Lanka. Details are provided in the brief prepared by IFC for this same meeting.
- *infoDev*: Companies like IBM, Motorola and STET-Italy have already joined the Information for Development Program as donors. Nortel could also become a donor and help the expansion of information technology markets in developing economies via the *infoDev* agenda. Messrs. James Bond and Carlos Braga (IENTI) can serve as contacts for *infoDev* related discussions.
- Global Knowledge 1997: The World Bank, in partnership with the Government of Canada and a diverse group of governmental, private sector and NGO partners, will sponsor a major international conference on "Knowledge for Development in the Information Age", in Toronto, Canada from June 23 to 25, 1997. Nortel has just accepted to be one of the private sponsors of this initiative. This conference will serve to launch "The Global Partnership Initiative" designed to harness the tools and skills of the global knowledge economy, to assist and empower the world's poorest. Ms. Ruth Thompson and Mr. Kerry McNamara (EDI) can serve as contacts for further information regarding this initiative.

/Attachment
[prepared by C. Braga, IENTI]



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Meeting Material - Speeches - Breakfast Meeting - Nortels Board of Directors - February 27, 1997		Barcode No. 30486961		
Document Date February 27, 1997	Document Type Brief			
Correspondents / Participants				
Subject / Title Brief for Mr. Wolfensohn's Address to the Board of Directors of Nortel				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Diego Hernández</td><td>Date April 24, 2025</td></tr></table>	Withdrawn by Diego Hernández	Date April 24, 2025
Withdrawn by Diego Hernández	Date April 24, 2025			

February 3, 1997

NORTEL
NORTHERN TELECOM

Mr. James D. Wolfensohn
President
The World Bank
1818 H Street, NW - E 1227
Washington, D.C. 20433

Dear Mr. Wolfensohn:

As Chairman of Nortel's (Northern Telecom's) Board of Directors, I would like to invite you speak to a breakfast meeting of Nortel's Board of Directors on February 27, 1997. The breakfast will be held in Washington, at the Willard Hotel, beginning at 7:00 a.m. The Board would be extremely interested in hearing about the current activities of the Bank around the world and the impact on the private sector, particularly the telecommunications industry. Additionally, we would appreciate hearing about the World Bank's reorganization and where you see the Bank heading as we enter the 21st century.

I have attached a list of Nortel's Board members, for your information. As you know Red Wilson, Chairman, President and CEO of BCE, is a member of our Board. I also understand that Red is on the World Bank's advisory committee. If you or your staff have any questions, please call me directly at (414) 299-7317 or communicate with Melanie Carter-Maguire in Nortel's Washington Government Relations Office at 508-3604.

Thank you for considering our invitation. On behalf of the Nortel Board, I look forward to your reply.

Sincerely,



Donald J. Schuenke
Chairman, Nortel

DJS/kc
Enclosures

cc: Leonard Good
Gregory L. Ebel
R. L. Wilson

AS PROXYHOLDERS IN THE ACCOMPANYING FORM OF PROXY SHALL HAVE THE RIGHT TO EXERCISE THEIR DISCRETION IN VOTING FOR ANOTHER QUALIFIED NOMINEE.

The name, age, municipality of residence, year first elected or appointed as a director, committee memberships, present occupation and business experience during the past five years, certain directorships and other information with respect to each of the nominees for election as a director, are set out below:



RALPH MACKENZIE BARFORD, 66, Toronto, Ontario, has been a director of the Corporation since April 28, 1994. He is the chairman of the customer finance committee and a member of the audit committee, the committee on directors, the executive committee and the international advisory committee.

Mr. Barford is President and a director of Valleydene Corporation Limited, a private investment company. He is also the Chairman of the Board of GSW Inc. and a director of Bank of Montreal, BCE, Bell Canada, Hollinger Inc., Morton International, Inc. and The Molson Companies Limited.



FRANK CHARLES CARLUCCI, 65, McLean, Virginia, has been a director of the Corporation since October 17, 1989. He is the chairman of the international advisory committee and a member of the social responsibility committee.

Mr. Carlucci has been the Chairman of The Carlyle Group, a Washington-based merchant banking firm, since February 1993 and was Vice-Chairman of The Carlyle Group prior thereto. He is also Chairman of the Board of BDM International Inc. and Neurogen Corp. and a director of Ashland Oil, Inc., Bell Atlantic Corp., CB Commercial Real Estate Group, Inc., Connecticut Mutual Life Insurance Company, East New York Savings Bank, General Dynamics Corporation, IRI International Corporation, Kaman Corporation, Quaker Oats Co., RAND Corporation, SunResorts, Ltd. NV, Texas Biotechnology Corporation, Pharmacia & Upjohn, Inc. and Westinghouse Electric Corp.



GERALD VINCENT DIRVIN, 58, Cincinnati, Ohio, has been a director of the Corporation since April 28, 1994. He is a member of the customer finance committee, the international advisory committee, the management resources and compensation committee, the social responsibility committee and the stock option plan committee.

Mr. Dirvin is a corporate director. He was Executive Vice-President of Procter & Gamble Company, a consumer products company, until April 1994. He is also a director of Cintas Corporation and Fifth Third Bancorp and its subsidiary, Fifth Third Bank.



L. YVES FORTIER, C.C., Q.C., 60, Westmount, Québec, has been a director of the Corporation since April 30, 1992. He is a member of the audit committee, the international advisory committee, the pension fund policy committee and the stock option plan committee.

Mr. Fortier has been a senior partner and the Chairman of the law firm of Ogilvy Renault since January 1992. Prior thereto, he was Ambassador and Permanent Representative of Canada to the United Nations. He is also a director of Avenor Inc., DuPont Canada Inc., Hudson's Bay Company, Royal Bank of Canada and TransCanada Pipelines Limited.



BOWIE KENT KUHN, 69, Ponte Vedra Beach, Florida, has been a director of the Corporation since October 1, 1985. He is a member of the audit committee, the North American advisory committee and the pension fund policy committee.

Mr. Kuhn is President of The Kent Group, Inc., a consulting company, and has been President of Sports Franchises, Inc., a sports franchise sales and consulting company, since June 1992.



THE HON. E. PETER LOUGHEED, P.C., C.C., Q.C., 67, Calgary, Alberta, has been a director of the Corporation since April 22, 1986. He is a member of the North American advisory committee, the management resources and compensation committee, the social responsibility committee and the stock option plan committee.

Mr. Lougheed is a partner in the law firm of Bennett Jones Verchere.* He is also the Chairman of the Board of Quorum Growth Inc. and Quorum Growth (Asia) Limited and a director of Bombardier Inc., Canadian Pacific Limited, Noranda Inc., Norcen Energy Resources Limited, PWA Corporation and Royal Bank of Canada.



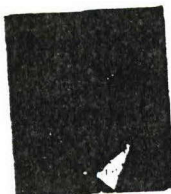
JEAN C. MONTY, C.M., 48, Toronto, Ontario, has been a director of the Corporation since September 24, 1992. He is a member of the executive committee.

Mr. Monty has been President and Chief Executive Officer of the Corporation since March 1, 1993 and was President and Chief Operating Officer of the Corporation from October 1992. Prior thereto, he was the Chairman and Chief Executive Officer of Bell Canada, a supplier of telecommunications services and equipment, from July 1991 and Chief Executive Officer of Bell Canada prior thereto. He is also a director of Bank of Montreal, ICL PLC and SNC-Lavalin Inc.



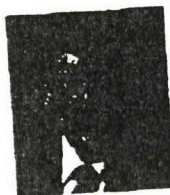
PAUL F. OREFFICE, 68, Lake Tahoe, Nevada, has been a director of the Corporation since April 29, 1983. He is the chairman of the management resources and compensation committee and the stock option plan committee, and a member of the committee on directors, the customer finance committee and the international advisory committee.

Mr. Oreffice is a corporate director. He was Chairman of the Board of The Dow Chemical Company, a manufacturer of chemicals and related products, until November 1992. He is also a director of CIGNA Corporation and The Coca-Cola Company.



RONALD WALTER OSBORNE, 49, Montréal, Québec, is nominated for election as a director of the Corporation for the first time.

Mr. Osborne has been the Executive Vice-President and Chief Financial Officer of BCE, a telecommunications company and the parent company of the Corporation, since January 1995.* On February 28, 1996, BCE announced Mr. Osborne has been appointed the President of BCE effective May 7, 1996. Prior to January 1995, Mr. Osborne was the President and Chief Executive Officer of Maclean Hunter Limited. He is also Chairman of the Board of Tele-Direct (Publications) Inc. and a director of BCE Mobile Communications Inc., Bell Cablemedia plc, Bell Canada, Bell Canada International Inc., Bruncor Inc., Noranda Inc., Sun Life Assurance Company of Canada, Telesat Canada, The New Brunswick Telephone Co. Ltd. and TMI Communications Inc.



JOHN ANDREW ROTH, 53, Bolton, Ontario, is nominated for election as a director of the Corporation for the first time.

Mr. Roth has been the Chief Operating Officer and President, Nortel North America of the Corporation since July 1, 1995 and was the Executive Vice-President and President, Nortel North America from January 1994. Prior thereto, Mr. Roth was Senior Vice-President and President, Wireless Systems.

more info attached to see "note"

DONALD JOHN SCHUENKE, 67, Elm Grove, Wisconsin, has been a director of the Corporation since September 29, 1983, Chairman of the Board since April 28, 1994 and was Vice-Chairman of the Board from September 23, 1993 to April 28, 1994. He is the chairman of the audit committee and the executive committee, and a member of the committee on directors and the customer finance committee.

Mr. Schuenke was the Chairman of the Board of The Northwestern Mutual Life Insurance Company, a life insurance company, from October 1993 until January 1994 and, prior thereto, was the Chairman and Chief Executive Officer of The Northwestern Mutual Life Insurance Company.* He is also a director of A.O. Smith Corporation, Allen-Edmonds Shoe Corporation, Badger Meter, Inc. and Federal Home Loan Mortgage Corporation, and a trustee of The Northwestern Mutual Life Insurance Company.

SHERWOOD HUBBARD SMITH, JR., 61, Raleigh, North Carolina, has been a director of the Corporation since April 28, 1994. He is the chairman of the North American advisory committee and a member of the customer finance committee, the executive committee and the pension fund policy committee.

Mr. Smith has been the Chairman of the Board and Chief Executive Officer of Carolina Power & Light Company, an electric utility company, since September 1992, and was the Chairman of the Board, President and Chief Executive Officer of Carolina Power & Light Company prior thereto. He is also a director of Springs Industries Inc. and Wachovia Corporation, and a trustee of The Northwestern Mutual Life Insurance Company.

LYNTON RONALD WILSON, 55, Montréal, Québec, has been a director of the Corporation since April 25, 1991. He is the chairman of the committee on directors and a member of the executive committee, the management resources and compensation committee and the international advisory committee.

Mr. Wilson has been the Chairman, President and Chief Executive Officer of BCE, a telecommunications company and the parent company of the Corporation, since April 1993 and was the President and Chief Executive Officer from April 1992.* Prior thereto, Mr. Wilson was President and Chief Operating Officer of BCE. On February 28, 1996, BCE announced Mr. Wilson has been appointed Chairman and Chief Executive Officer of BCE, effective May 7, 1996. He is also Chairman of the Board of Bell Canada, effective March 1, 1996, and a director of BCE, BCE Mobile Communications Inc., Bell Canada, Bell Canada International Inc., Chrysler Canada Ltd., Chrysler Corporation, Stelco Inc., Tate & Lyle PLC and Telelobe Inc.

Betty Kennedy will not be standing for re-election as a director of the Corporation at the Meeting, having reached the age of retirement in accordance with the guidelines governing eligibility to become a nominee for director adopted by the board of directors in 1993. See "Corporate Governance" below. Mr. Cyr and Dr. Kenney-Wallace will also not be standing for re-election as directors of the Corporation.

J.V.R. Cyr, of Montréal, Québec, has been a director of the Corporation since April 28, 1988. Mr. Cyr previously served as a director of the Corporation from April 26, 1984 to September 30, 1985. He is chairman of the pension fund policy committee and a member of the North American advisory committee and the social responsibility committee. Mr. Cyr was the Chairman of the Board of Bell Canada, a supplier of telecommunications services and equipment, from October 1992 to March 1, 1996.* He was the Chairman of the Board of BCE, a telecommunications company and the parent company of the Corporation, until April 1993 and the Chief Executive Officer of BCE until April 1992. Mr. Cyr was Chairman of BCE Canadian Telecom Group from April 1992 to December 1993. He is also the Chairman of the Board of Telesat Canada and TMI Communications Inc., Vice-Chairman of Domtar Inc., and a director of Air Canada, BCE Mobile Communications Inc., Canadian National Railway Company, Dominion Textile Inc., Spar Aerospace Limited, Telelobe Inc. and TransCanada Pipelines Limited.

more info
attached, see
"note"



BIOGRAPHY

Donald J. Schuenke

Donald J. Schuenke is chairman of Northern Telecom Inc., a subsidiary of Northern Telecom Limited, which is a leading global telecommunications manufacturing and research company. Mr. Schuenke was appointed to that post in January 1994.

Mr. Schuenke, who has been a director of Northern Telecom Limited since 1983, was named non-executive vice chairman of Northern Telecom Limited in September 1993.

Previously, Mr. Schuenke was chairman and chief executive officer of The Northwestern Mutual Life Insurance Co., Milwaukee, the nation's eighth largest life insurance company, with assets of over \$43 billion.

Mr. Schuenke joined Northwestern in 1963 as an attorney in the Law Department. He advanced to assistant counsel in 1965 and to assistant general counsel in 1967. In 1974 he was elected vice president, general counsel and secretary and was responsible for the operation of the Law Department. In 1976 he was elected senior vice president of investments to head all Northwestern's investment activities.

He was born Jan. 12, 1929, in Milwaukee and is a 1950 graduate of Marquette University, Milwaukee with a Ph. B. degree. Following four and one-half years as an Air Force officer, he returned to Marquette and obtained his law degree in 1958. After law school, he worked for Standard Oil of Indiana in property taxes and real estate/mortgage loan work.

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Schuenke is a member of the Wisconsin Bar Association, and he is an officer and director of seven funds that fund Northwestern's variable contracts. He also was elected to the board of directors of the Federal Home Loan Mortgage Corp. (Freddie Mac) at the corporation's first annual shareholder meeting on Feb. 6, 1990.

He is a director of Badger Meter, Inc.; A. O. Smith Corp.; the Committee for Economic Development; Competitive Wisconsin, Inc., and the Metropolitan Milwaukee Association of Commerce.

Mr. Schuenke is chairman of the board of trustees of Marquette University, to which he was elected in 1983, and was national co-chair for the recently completed \$120 million Campaign for Marquette.

He was general chairman of the 1986 campaign of the United Way of Greater Milwaukee. In 1991 he was named honorary chair for the Greater Milwaukee Open. He is a past president of the Greater Milwaukee Committee.

Mr. Schuenke also serves on the board of the Milwaukee Symphony Orchestra, Partners Advancing Values in Education, and Froedtert Memorial Lutheran Hospital. He is chairperson of the Fund Development Committee of the Foundation for Religious Retirement.

In 1990 Schuenke received the Community Service Award of the St. Francis Children's Center for outstanding achievements as a leader in the Milwaukee community. He also received the 1990 Institute of Human Relations Award from the American Jewish Committee. On April 4, 1991, he received the Outstanding Financial Executive Award from Vanderbilt University's Owen Graduate School of Management. In 1992 he received the "Spirit of Milwaukee" Award from the Metropolitan Milwaukee Civic Alliance, and the "Alumnus of the Year" Award of Marquette University.



BIOGRAPHY

Jean C. Monty

Jean C. Monty is president and chief executive officer of Northern Telecom Limited.

Prior to joining Northern Telecom in October, 1992 as its president and chief operating officer, Mr. Monty was the chairman and chief executive officer of Bell Canada. Mr. Monty began his career at Bell Canada in 1974, and has held various positions in the BCE group including executive vice-president at BCE Inc. where he was responsible for BCE's investments in Teleglobe, BCE Mobile and Bell Canada International.

In addition to his position on the board of directors of Northern Telecom Limited and Bell-Northern Research Limited, Mr. Monty is also a member of the board of directors of the Bank of Montreal and the Supervisory Board of the Lagardere Groupe in Paris.

Mr. Monty's interests in public policy and community affairs include the vice-chairmanship of the board of directors of the Conference Board of Canada.

Mr. Monty is active in the educational field as a member of the advisory committee of the school of business at the University of Western Ontario.

Mr. Monty holds a bachelor of arts degree, a master of arts in economics from the University of Western Ontario, and a master of business administration from the University of Chicago.

November 24, 1993



GREG FARMER

Greg Farmer was named Vice President, Government Relations for Northern Telecom (Nortel) in May 1996. Mr. Farmer has responsibility for legislative, executive, regulatory and international trade activities. He is responsible for assisting Northern Telecom's worldwide marketing organizations with international finance, banking, government and trade support activities including working with the U.S. Executive Departments, Congress and foreign embassies in Washington. Farmer also served as Director of Government Relations for Nortel from 1989 to 1991.

Prior to returning to Nortel, Farmer was appointed by President Clinton as Under Secretary of Commerce for Travel and Tourism where he was responsible for overall policy development and direction of the U. S. Travel and Tourism Administration--the nation's official tourism office.

Under his direction as Under Secretary the first-ever White House Conference on Travel and Tourism was held -- an historic opportunity for the travel and tourism industry to develop a strategic plan for the 21st century. He also convened the first Western Hemispheric Tourism Ministerial in 1994 to help map a regional economic strategy for the western hemisphere.

While at Commerce, Farmer initiated several dynamic tourism marketing programs including a public/private initiative to double the number of Japanese visitors to the U.S. by the year 2000. Placing an emphasis on technology, Under Secretary Farmer helped establish the U.S. Travel and Tourism Information Network (USTTIN), an Internet website that provides information about U.S. travel destinations, products, and services to more than 35 million people worldwide.

Farmer was previously Secretary of the Florida Department of Commerce, responsible for promoting a comprehensive economic development program for the state. In that capacity, Farmer had oversight of international and domestic tourism; international trade; industry development; business assistance; and sports, film and motion picture development.

Farmer is recognized as having brought a business-like approach fostering a market-driven, customer-focused, measurable approach to government in Florida and at USTTA. He has privatized some traditional government functions and incorporated a public-private partnership to all major activities.

Page 2

Farmer's extensive legislative and political experience includes six years (1982-1988) as Chief of Staff for former Congressman Buddy MacKay; Executive Staff for former Governor Bob Graham (1981).

Farmer is a graduate of Florida International University and earned his master's degree from Florida State University.

*Corporate Information Integration***Nortel (Northern Telecom) Reports 1996 Results****News Release 97016
January 27, 1997**

TORONTO -- Nortel (Northern Telecom Limited) today reported results for the fourth quarter and the year 1996.

Revenues were \$US 4.19 billion for the fourth quarter of 1996, up 20 percent from \$US 3.50 billion reported for the same period in 1995. Net earnings applicable to common shares during the quarter were \$US 317 million, or \$US 1.23 per share, an increase of 26 percent over \$US 249 million, or \$US 0.98 per share, in the fourth quarter of 1995. Order input for the fourth quarter of 1996 was a record \$US 5.27 billion, up 41 percent from \$US 3.74 billion recorded in the same period last year.

For the year 1996, Nortel recorded revenues of \$US 12.85 billion, an increase of 20 percent over 1995 revenues of \$US 10.67 billion. Net earnings applicable to common shares for 1996 were \$US 619 million, or \$US 2.40 per share, compared with \$US 469 million, or \$US 1.85 per share, in 1995. Order input for 1996 was \$US 14.08 billion, compared with \$US 10.99 billion in 1995.

Geographically, revenues for the quarter showed significant growth over the same period in 1995 in North America, due to substantial gains in the United States and strong growth in Canada. The international markets also experienced strong growth in the quarter over last year, with substantial gains in Europe and good growth in Asia Pacific partially offset by a substantial decline in Caribbean and Latin America (CALA). For the year, all geographic regions grew compared to 1995, underpinned by the substantial gains in the United States and significant growth in Europe and Asia Pacific, with more modest gains from Canada and CALA.

Compared to the same period last year, Wireless Networks and Broadband Networks revenues both increased substantially in the quarter, primarily driven by growth in the United States and Europe. Enterprise Networks revenues grew sharply, with significant growth experienced in the United States and Europe and strong growth across all other geographic areas. In the quarter compared to the same period last year, Switching Networks revenues declined slightly. For the year, all Network businesses experienced revenue growth over 1995 with Wireless Networks and Broadband Networks experiencing substantial increases.

Selling, general and administrative (SG&A) expenses were \$US 685 million, or 16.4 percent of revenues, in the quarter, compared with \$US 549 million, or 15.7 percent, in the same period in 1995. For the year 1996, SG&A expenses were \$US 2.20 billion, or 17.1 percent of revenues, compared with \$US 1.92 billion, or 18.0 percent, in 1995, reflecting an increase in absolute dollars but a decrease as a percent of revenues. This planned increase reflects continuing investments in our growing international markets in our Enterprise Networks, Wireless Networks and Broadband Networks businesses.

Research and development (R&D) expenses increased to \$US 526 million, or 12.5 percent of revenues, for the fourth quarter, compared with \$US 449 million, or 12.8 percent, for the fourth quarter last year. For the year, R&D expenses increased to \$US 1.81 billion, or 14.1 percent of revenues, from \$US 1.58 billion, or 14.8 percent, in 1995, primarily driven by increased investments in the Wireless, Enterprise and Broadband Network portfolios.

Commenting on the performance for the year, Jean C. Monty, President and Chief Executive Officer of Nortel said:

"We are pleased with the order, revenue and earnings growth achieved in 1996 and especially pleased with our order backlog of \$US 6.0 billion at the end of 1996. We are also encouraged by the growth in areas of our businesses which emphasize our capabilities in the provision of total network solutions to a wide range of customers. This is exemplified by year over year revenue growth as follows:

- Wireless Networks increased 60 percent, largely supported by the breadth of our wireless portfolio and the emergence of new operators.
- Broadband Networks grew 35 percent driven by the demand of increased bandwidth in the carrier networks.
- Enterprise Networks increased 19 percent driven by increased demand for business communication needs and enterprise connectivity."

Mr. Monty commented further on the outlook for Nortel:

"Our ongoing commitment to customer satisfaction, the expansion of our customer base and the breadth of our product portfolio positions us well in the growing global telecommunications market. We continue to develop a global leadership position in the provision and integration of digital networks solutions of all types, and we are committed to growing Nortel profitably and increasing shareholder value."

Nortel's common shares are listed on the New York, Toronto, Montreal, Vancouver and London stock exchanges.

Nortel had 1996 revenues of \$US 12.8 billion and has approximately 68,000 employees worldwide.

For more information:

Investor Relations	Media Relations
Bob Kay	Robert J. O'Brien
Nortel	Nortel
905-863-6044	905-863-6250
bob.kaye@nortel.com	

Or visit Nortel's web-site at <http://www.nortel.com> 97016

Northern Telecom Limited
Fourth Quarter Consolidated Results (unaudited)

	(U.S. dollars, millions except per share figures)			
	Three months ended		Year ended	
	December 31,		December 31,	
	1996	1995	1996	1995
Revenues	\$4,188	\$3,496	\$12,847	\$10,672
Cost of revenues	2,439	2,075	7,714	6,379
Gross profit	1,749	1,421	5,133	4,293
	42 %	41 %	40 %	40 %
Selling, general and administrative expense	685	549	2,195	1,923
Research and development expense	526	449	1,813	1,579
Goodwill amortization	12	10	45	39
Operating earnings	526	413	1,080	752
Equity in net earnings of associated companies	(6)	1	(8)	7
Investment and other income - net	10	5	47	107
Interest expense				
Long-term debt	(32)	(33)	(122)	(126)
Other	(15)	(14)	(53)	(34)
Earnings before income taxes	483	372	944	706
Income tax provision	164	122	321	233

Net earnings	319	250	623	473
Dividends on preferred shares	2	1	4	4
Net earnings applicable to common shares	\$317	\$249	\$619	\$469
Earnings per common share*	\$1.23	\$.98	\$2.40	\$1.85
Dividends per common share	\$.13	\$.11	\$.50	\$.42
Effective tax rate	34%	33%	34%	33%
* Based on weighted average number of common shares outstanding (millions)	259	254	258	254

Northern Telecom Limited
Fourth Quarter Consolidated Results (unaudited)
Supplementary Information

Revenues	(U.S. dollars, millions)					
	Twelve months ended			Twelve months ended		
	December 31, 1996	% of Total	% Delta from 1995	December 31, 1995	% of Total	
By Geographic Areas:						
United States	\$6,858	53%	28%	\$5,345	50%	
Europe	3,029	24%	17%	2,590	24%	
Canada	1,233	10%	8%	1,138	11%	
Other	1,727	13%	8%	1,599	15%	
Total	\$12,847	100%	20%	\$10,672	100%	
By Principal Product Lines:						
Switching Networks	\$4,542	35%	7%	\$4,231	40%	
Enterprise Networks	3,865	30%	19%	3,245	30%	
Wireless Networks	2,487	19%	60%	1,554	15%	
Broadband Networks	1,507	12%	35%	1,113	10%	
Other	446	4%	(16%)	529	5%	
Total	\$12,847	100%	20%	\$10,672	100%	

Balance Sheet Items	U.S. dollars, billions)	
	As at	As at
	December 31, 1996	December 31, 1995*
Accounts Receivable	\$4.09	\$3.69
Inventories	\$1.68	\$1.64
Total Assets	\$10.90	\$9.48
Long-term Debt (excluding Notes Payable)	\$1.67	\$1.56
Shareholders' Equity	\$4.88	\$3.87

* Certain comparative figures have been reclassified to conform with the current per