

How Are We Doing?

Leading ES Indicators Show Progress

A Message from Bill Conner, President, Enterprise Solutions

Nortel Networks recently released financial results for the First Quarter, and as you probably know the Company is off to a great start in the new millennium. Investors have responded very positively, and our share price is on the rise again. Wall Street and customers everywhere are recognizing we offer the best portfolio available for building the new high-performance Internet.

You may also have heard that Enterprise Solutions did not contribute as much as expected to the overall Company increase, and that's true. We need to do much better this Quarter.

The business opportunity is right in front of us for the taking. Former competitors No Name (ex-Lucent), 3Com and Cabletron have abandoned the enterprise space. They failed and bailed. We need to swoop in and capture their customers right now while they're disillusioned and searching for a reliable, long-term partner.

At the same time, the Company is being challenged from the flank by Cisco – you've seen their recent incursion into the carrier space with SBC. It's time for us to carry the attack to their backyard, to go after their customers. They can't match the High Performance Architecture and full portfolio of integrated solution sets we offer to customers.

We're poised to deliver a great Q2. How do I know this? From the Leading Indicators the leadership team has identified – a number of key metrics of our business health and progress.

Five months ago some things around here were broken. So we addressed the basics. We put processes in place to get the job done right and regained our customer focus. We did a lot of foundational work, and we're making the right angle turn toward a great future.

The picture is not all rosy; there's plenty of room for improvement. But I want you to know Enterprise is on the right path. Here are just a few examples: we had a strong revenue spike in March, and bid activity is increasing, which will lead to further revenue gains in Q2 and beyond. We showed dramatic improvement in hardware and software quality. Operations performance is improving, though not yet to required levels. Y2K is history, and our manufacturing reorganization is essentially complete. And we've got several new products about to launch.

We're definitely moving in the right direction.

And in keeping with our promise to communicate with Enterprise Solutions employees around our objectives and progress, we'll be highlighting the trends of our Leading Indicators on a regular basis.

We're focused on four Leading Indicator areas, and members of the Cabinet will be communicating each area:

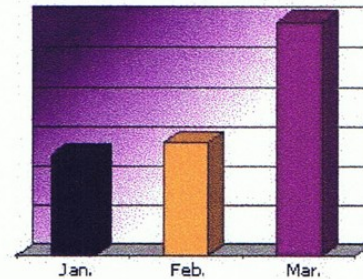
1. Customer Volume/Sales Funnel (Winston Estridge)
2. Customer Service/Product Quality (Matt Kochan)
3. Customer Readiness/Time To Money (Ed Pillman/Alan Kember)
4. Logistics/Operations (Liam Nagle)

Following are some of the highlights (and challenges) in each area:

1. Customer Volume/Sales Funnel

The good news in the Sales Funnel is that we're putting out a lot more bids and unsolicited proposals, which will lead to increased business in Q2 and beyond.

- Enterprise global sales revenue for March jumped more than 100% over January and February.
- Customer-driven Requests for Proposal in Q1 were nearly 25% higher than the 1999 average. The average dollar value of RFPs also rose by over 60%, doubling the total value of potential RFP business.
- Utilization of the Sales Force Automation (SFA) tool improved significantly. We are expecting 100% utilization.



**Global Sales Revenue
Jumps in March**

We should see the sales backlog improving in Q2 for several reasons:

- Substantial up-tempo in bid activity,
- Delivery of new product introductions such as Meridian Release 25 and controlled release of 8600,
- Aggressive pursuit of new customers abandoned by Lucent in the spinoff of their No Name business, and
- 3Com and Cabletron exiting the enterprise arena.

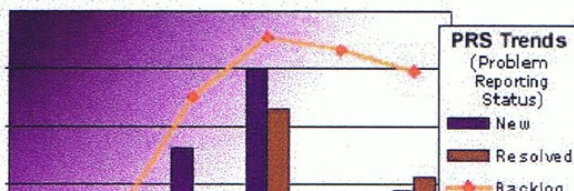
I'm expecting Sales to show a tremendous increase in our order backlog in Q2. The business opportunity is out there, so let's "come together" to help the account teams bring it home where it belongs.

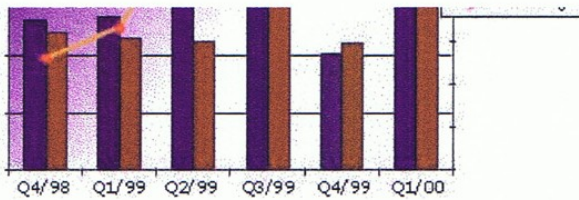
2. Customer Service/Product Quality

The most notable progress in this area is significant improvement in Accelar 1200 software code quality. Current testing of Release 2.0.7 indicates that software quality is very good. The new limited availability program will ensure continued success of Release 2.0.7. Demand has been extremely high and we anticipate Q2 General Availability.

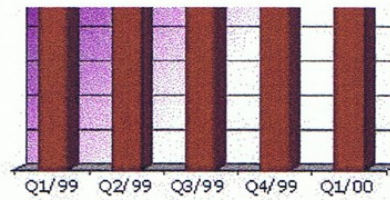
Other Customer Service/Product Quality highlights and challenges:

- Passport 6400 and 4400 continue to perform well in customer deployment. Passport 6400 release 7.0 has stabilized. All gating defects have been fixed and the release reached General Availability status on the first of May.
- In coordination with Customer Test Engineering we are establishing a cross product-line test capability to continue ensuring seamless interoperability of all Nortel products. We are also broadening our test coverage to include more vendors.
- BayRS 14.0 has been adopted in over 350 customer sites in Q1 with very positive results. We are working on improving our software release migration process for large networks.
- Norstar and CallPilot 1.07 are not where they need to be; however, the incoming bug rate on CallPilot has stabilized.





Acclar Software Quality Improves
(Q4/99 statistics reflect Y2K lock down)



Passport Problems Declining While Customer Deployments Increasing

3. Customer Readiness/Time To Money

The Cabinet agreed we must escalate our focus on our end-to-end customer readiness process in four critical areas for Q2:

- Data Networking
- 2nd Wave of eBusiness
- Internet Telephony
- Optical Internet

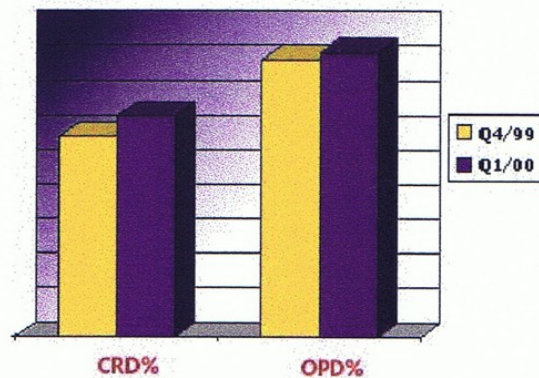
Ed Pillman and Alan Kember are the process owners, and recently named Pat Rhodes as Customer Readiness Prime to champion the process. A cross-functional, Integrated Project Team (IPT) is being formed to spearhead new product customer readiness applying time-to-money principles. The IPT will ensure alignment of product, marketing, sales, operations, services, training and channels with overall Enterprise priorities. Their responsibility will include a coherent ES portfolio launch approach encompassing distribution strategy, pricing, training, documentation, beta deployment, schedule, quality and other key go-to-market factors.

You'll be hearing a lot more from Pat's team about these critical areas in the days and weeks ahead.

4. Logistics/Operations

Liam Nagle's area is showing several signs of improvement but delivery performance is still below targets. Among other actions, we intend to leverage EMEA strengths in delivery and logistics to achieve plan numbers.

- Both CRDs (Delivery to Customer Request) and OPDs (Delivery to Nortel's original commitment) are on upward trends, but not yet up to plan.
- Quality failures per million (DOAm) are flat; however, Baystack 450 hardware issues have been addressed and significant improvement is expected in Q2. Releases in Q2 will remedy software issues.



Deliveries Trending Upward, But Room for Improvement

Early in March, Liam's team established several strategic thrusts for global planning, order process, supply chain performance, and a "Five 9's" quality ethos which we expect to transform Operations into an agile, flexible, customer-satisfying team.

Let's Continue the Forward Momentum

You'll be hearing more about the Leading Indicators throughout the year, both from me and the Cabinet. Additional details in each area will be available on ES Online, and will be refreshed monthly.

We're going to paint a realistic picture. You deserve to know the true Enterprise direction. Today I can tell you we're accelerating *forward* – and our momentum will continue through your individual and collective drive to win.

You'll be hearing some of the success stories about people and teams leading the charge. If you're part of an Enterprise success, or know someone who is, please share your story with Rick Adams (Adams, Rick [NGA:1480-M:EXCH, ESN 444-2596], ES Internal Communications Prime. There are a lot of great things happening around Enterprise, and we want to hear from you so we can tell everyone.

The next 8 weeks represent a critical inflection point for Enterprise Solutions. We've turned the corner, and we need everyone moving in the same direction. No Name and the others have handed us a silver platter of opportunity by abandoning their enterprise customers, so we need to move swiftly and decisively to capture their customers and revenue.

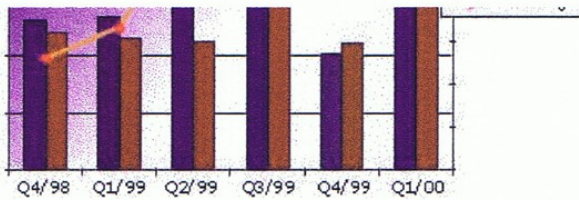
We need everyone to continue improving the Leading Indicators across the board. We need focus and passion around flawless execution, customer satisfaction, and winning. We need your personal, total commitment to Enterprise success now ... today ... and every day forward.

Bill Conner

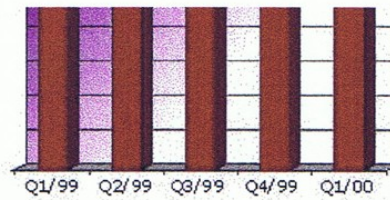
*Email from Nortel CEO John Roth
to Enterprise Solutions president Bill Conner*

From: Roth, John [BRAM:0001-M:EXCH]
To: Conner, Bill [NGB:2793-M:EXCH]
Subject: RE: Leading Indicators
Message #1

Bill
This is what the troops need to hear -real direction and leadership without BS, but an optimistic- we can and will do this tone!!
John



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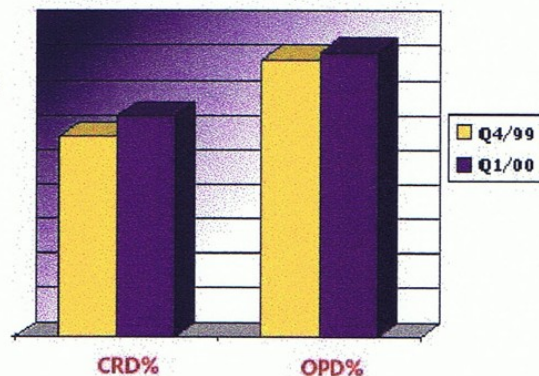
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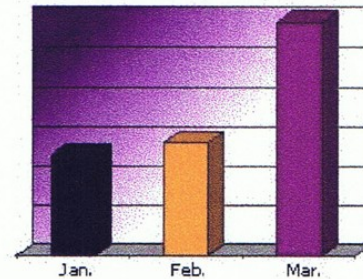
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