

**A Sense of Urgency,  
A Sense of Confidence**

*A Message from Frank Plastina  
to Wireless & Core Networks Employees*

As you are aware, Nortel Networks announced to the markets Friday our anticipated financial picture for Q2, along with progress we've made in reducing expenses and further workforce reductions during Q3.

On Monday I met with the top leaders in Wireless & Core Networks and challenged them in two basic areas: stabilizing and growing top-line revenue and better managing our cash. I'd like all of you to understand the fundamentals of our situation so you can apply them to your role and projects.

First, let's keep the financial picture in perspective. The \$12.3 billion, the largest portion of the announced loss for Q2, is an adjustment to intangible assets primarily related to goodwill associated with our recent acquisitions. The result of this action is to adjust the asset value on our books for these acquisitions to reflect current market valuations. This was largely a non-cash impacting entry on our books.

Second, to provide greater funding flexibility to meet our business needs, we have entered into agreements for additional credit facilities. We will continue to take the steps necessary both to whether the storm but more importantly to focus on our next-generation products.

Where we need continued focus and diligence is in managing the day-to-day activities which drain our cash flow. This need to focus on cash is why we have linked most of the second half 2001 Success payout to our ability to generate cash.

First and foremost, we must stop our operating losses and get to a break-even level of earnings in the next 3 to 6 months. Second, we must improve the pace at which we collect our receivables. Specifically, I would like each of you to ask your leaders about the amount of receivables we are carrying which are specifically being held up due to not delivering certain features or various field performance issues. Then ask yourself how you can help clear these issues. Third, we must ask ourselves whether or not we have a detailed understanding of every piece of inventory we are carrying relating to each particular product line. Once we understand this, we must creatively put various programs together to help our account teams sell it. Fourth, we must proactively work with IS to quickly redeploy computing assets or get unused resources out. Our outsource contracts are based on number of assets supported. Therefore, redeploying and

decommissioning assets as necessary is absolutely essential to keeping this cost down and preserving cash. All of the data we need to get these things done is available and in the hands of your leaders. Ask for it if you don't have it!

But cost containment, by definition, is a short-term fix. Revenue and margin growth will determine long-term success.

All of us need to understand the cause-and-effect relationship of how the project we're working on impacts the top line. If you're in technology, do you have knowledge of what revenue will be generated from your project and in what timeframe? If not, ask your leader.

We need to standardize our product offers. Product management needs to focus on how we can make it easier for our sales people to sell the product in as few configurations as possible and make it easier to deploy. We owe the account teams a very locked-down, focused Plan of Record that can be overlaid onto the account plan so the sales people feel confident that we are going to nail the committed dates. This will drive improved margins.

We're looking to marketing to bridge the tactical needs of day-to-day sales with the long-term needs of portfolio renewal. I'm going to personally work the top 50 account plan initiative over the next few weeks to better focus our marketing efforts. We must provide better tactical support to the sales team and better visibility back to the R&D team regarding revenue and margin-generating priorities.

These will not be easy weeks and months ahead. The recently announced options exchange program provides you with an additional incentive to work through these issues for the potential future return from all the heavy lifting. Meaningful growth in service provider spending is not expected to occur before the second half of 2002. However, the pace at which we are adjusting to the new reality makes me very confident that we will weather the storm. We're on the right path with regard to cost reduction. We are focusing the company on high-growth segments. We are creating a company which we are driving to be profitable despite lower industry spending, and more importantly creating a company which will be poised to capture a greater share of opportunities when the recovery kicks in. Let's make it happen.

**Frank Plastina**  
**Wireless & Core Networks**

The playback of my call with W&CN leaders is available at:

<http://webvision.ca.nortel.com/display.cgi?id=4894>