

**NORTEL NETWORKS CORPORATION**  
**Consolidated Balance Sheets**  
(millions of U.S. dollars)

	U.S. GAAP		
	(unaudited) December 31, 2002 <sup>(1)</sup>	(unaudited) September 30, 2002 <sup>(3)</sup>	(audited) December 31, 2001 <sup>(3)</sup>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents .....	\$ 3,861	\$ 4,170	\$ 3,513
Restricted cash and cash equivalents.....	249	420	-
Accounts receivable (less provisions of \$477 at December 31, 2002; \$528 at September 30, 2002; \$655 at December 31, 2001) .....	1,910	2,007	2,923
Inventories – net.....	889	1,132	1,579
Income taxes recoverable .....	58	58	796
Deferred income taxes – net .....	791	1,162	1,386
Other current assets .....	495	673	857
Current assets of discontinued operations .....	223	293	708
<b>Total current assets .....</b>	<b>8,476</b>	<b>9,915</b>	<b>11,762</b>
Investments at cost and associated companies at equity .....	246	176	253
Plant and equipment – net .....	1,444	1,670	2,571
Goodwill .....	2,201	2,200	2,810
Intangible assets – net .....	98	133	285
Deferred income taxes – net .....	2,723	2,333	2,077
Other assets <sup>(2)</sup> .....	783	1,013	1,379
<b>Total assets .....</b>	<b>15,971</b>	<b>\$ 17,440</b>	<b>\$ 21,137</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Notes payable .....	\$ 100	\$ 128	\$ 426
Trade and other accounts payable .....	902	901	1,378
Payroll and benefit-related liabilities .....	521	646	636
Contractual liabilities .....	1,547	1,715	1,846
Restructuring.....	785	797	872
Other accrued liabilities .....	2,894	2,815	3,915
Long-term debt due within one year .....	233	516	384
<b>Total current liabilities .....</b>	<b>6,982</b>	<b>7,518</b>	<b>9,457</b>
Long-term debt .....	3,719	4,111	4,094
Deferred income taxes – net .....	344	499	518
Other liabilities .....	2,352	1,687	1,607
Minority interest in subsidiary companies .....	614	611	637
<b>Total liabilities .....</b>	<b>14,011</b>	<b>14,426</b>	<b>16,313</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common shares, without par value – Authorized shares: unlimited; Issued and outstanding shares: 3,850,284,146 at December 31, 2002, 3,849,891,442 at September 30, 2002, and 3,213,742,169 at December 31, 2001 .....	33,587	33,872	32,899
Additional paid-in capital .....	3,734	3,753	3,257
Deferred stock option compensation .....	(96)	(118)	(205)
Deficit .....	(33,736)	(33,488)	(30,151)
Accumulated other comprehensive loss .....	(1,529)	(1,005)	(976)
<b>Total shareholders' equity .....</b>	<b>1,960</b>	<b>3,014</b>	<b>4,824</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>\$ 15,971</b>	<b>\$ 17,440</b>	<b>\$ 21,137</b>

(1) The unaudited consolidated balance sheet as at December 31, 2002 is preliminary and is subject to change. Nortel Networks disclaims any intention or obligation to update or revise such balance sheet prior to the filing of its reported results for the year ended December 31, 2002.

(2) Included in other assets are provisions related to long-term accounts receivable of \$781 at December 31, 2002; \$877 at September 30, 2002; and \$828 at December 31, 2001.

(3) Certain figures for the three months ended September 30, 2002 and for the year ended December 31, 2001 in the consolidated balance sheets have been reclassified to conform to the year ended December 31, 2002 presentation.