

NORTEL NETWORKS CORPORATION
Consolidated Statements of Cash Flows (unaudited)
(millions of U.S. dollars)

	U.S. GAAP			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2003 ⁽¹⁾	2002	2003 ⁽¹⁾	2002
Cash flows from (used in) operating activities				
Net loss from continuing operations	\$ (14)	\$ (697)	\$ (150)	\$ (1,538)
Adjustments to reconcile net loss from continuing operations to net cash from (used in) operating activities, net of effects from acquisitions and divestitures of businesses:				
Amortization and depreciation	139	185	279	384
Non-cash portion of special charges and related asset write downs	(21)	285	(26)	382
Equity in net loss of associated companies	20	10	27	14
Current and deferred stock option compensation	24	21	44	46
Deferred income taxes	-	(231)	(6)	(614)
Other liabilities	39	7	65	(30)
Gain on repurchases of outstanding debt securities	-	-	(4)	-
(Gain) loss on sale or write down of investments and businesses	9	(4)	42	(26)
Other – net	(107)	137	(78)	206
Change in operating assets and liabilities:				
Accounts receivable	139	371	186	544
Inventories	6	36	117	126
Income taxes	10	750	5	1,280
Restructuring	(153)	(294)	(343)	(665)
Accounts payable and accrued liabilities	(182)	(232)	(335)	(90)
Other operating assets and liabilities	(37)	(130)	(32)	(237)
Net cash from (used in) operating activities of continuing operations	<u>(128)</u>	<u>214</u>	<u>(209)</u>	<u>(218)</u>
Cash flows from (used in) investing activities				
Expenditures for plant and equipment	(38)	(105)	(56)	(208)
Proceeds on disposals of plant and equipment	15	32	21	76
Decrease in restricted cash and cash equivalents	124	-	144	-
Increase in long-term receivables	(2)	(103)	(11)	(210)
Decrease in long-term receivables	192	16	197	105
Acquisitions of investments and businesses – net of cash acquired	-	(6)	(2)	(25)
Proceeds on sale of investments and businesses	1	14	8	73
Net cash from (used in) investing activities of continuing operations	<u>292</u>	<u>(152)</u>	<u>301</u>	<u>(189)</u>
Cash flows from (used in) financing activities				
Decrease in notes payable – net	(1)	(66)	(18)	(77)
Proceeds from long-term debt	-	20	-	31
Repayments of long-term debt	(51)	(4)	(94)	(6)
Decrease in capital leases payable	(1)	(1)	(2)	(5)
Issuance of common shares	-	857	-	862
Issuance of prepaid forward purchase contracts	-	623	-	623
Net cash from (used in) financing activities of continuing operations	<u>(53)</u>	<u>1,429</u>	<u>(114)</u>	<u>1,428</u>
Effect of foreign exchange rate changes on cash and cash equivalents	60	52	78	46
Net cash from continuing operations	171	1,543	56	1,067
Net cash from discontinued operations	20	237	273	289
Net increase in cash and cash equivalents	<u>191</u>	<u>1,780</u>	<u>329</u>	<u>1,356</u>
Cash and cash equivalents at beginning of period – net	3,999	3,089	3,861	3,513
Cash and cash equivalents at end of period – net	<u>\$ 4,190</u>	<u>\$ 4,869</u>	<u>\$ 4,190</u>	<u>\$ 4,869</u>

⁽¹⁾ The unaudited consolidated statements of cash flows for the three months and six months ended June 30, 2003 are preliminary and are subject to change. Nortel Networks disclaims any intention or obligation to update or revise such statements of cash flows prior to the filing of its reported results for the three months and six months ended June 30, 2003.