

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

	U.S. GAAP			
	Three months ended December 31,		Year ended December 31,	
	2003 ⁽¹⁾	2002	2003 ⁽¹⁾	2002
Cash flows from (used in) operating activities				
Net earnings (loss) from continuing operations	\$ 390	\$ (167)	\$ 387	\$ (3,286)
Adjustments to reconcile net earnings (loss) from continuing operations to net cash from (used in) operating activities, net of effects from acquisitions and divestitures of businesses:				
Amortization and depreciation	142	181	575	709
Non-cash portion of special charges and related asset write downs	48	(55)	56	1,235
Equity in net (earnings) loss of associated companies	(1)	(8)	34	18
Current and deferred stock option compensation	21	22	90	87
Deferred income taxes	(25)	6	(33)	(465)
Other liabilities	61	2	180	(12)
(Gain) loss on repurchases of outstanding debt securities.....	-	(60)	(4)	(60)
(Gain) loss on sale or write down of investments and businesses	(20)	17	(87)	(11)
Other - net	(111)	(79)	(73)	451
Change in operating assets and liabilities:				
Accounts receivable	(298)	(34)	(174)	893
Inventories	(7)	261	91	670
Income taxes	(2)	(27)	17	1,263
Restructuring	(106)	(275)	(561)	(1,145)
Accounts payable and accrued liabilities	265	166	(419)	(816)
Other operating assets and liabilities	(93)	(111)	(426)	(292)
Net cash from (used in) operating activities of continuing operations	<u>264</u>	<u>(161)</u>	<u>(347)</u>	<u>(761)</u>
Cash flows from (used in) investing activities				
Expenditures for plant and equipment	(67)	(46)	(161)	(335)
Proceeds on disposals of plant and equipment	19	50	41	406
(Increase) decrease in restricted cash and cash equivalents	53	189	200	(231)
Increase in long-term receivables	(1)	(22)	(13)	(271)
Decrease in long-term receivables	5	49	212	302
Acquisitions of investments and businesses – net of cash acquired	(5)	-	(59)	(29)
Proceeds on sale of investments and businesses	7	25	58	104
Net cash from (used in) investing activities of continuing operations	<u>11</u>	<u>245</u>	<u>278</u>	<u>(54)</u>
Cash flows from (used in) financing activities				
Increase (decrease) in notes payable - net	(6)	(19)	(45)	(333)
Proceeds from long-term debt	-	1	-	33
Repayments of long-term debt	(3)	(456)	(270)	(478)
Increase (decrease) in capital leases payable	(1)	(2)	(4)	(10)
Issuance of common shares	1	-	3	863
Issuance of prepaid forward purchase contracts	-	-	-	623
Net cash from (used in) financing activities of continuing operations	<u>(9)</u>	<u>(476)</u>	<u>(316)</u>	<u>698</u>
Effect of foreign exchange rate changes on cash and cash equivalents	79	58	176	74
Net cash from (used in) continuing operations	<u>345</u>	<u>(334)</u>	<u>(209)</u>	<u>(43)</u>
Net cash from (used in) discontinued operations	83	35	412	374
Net increase (decrease) in cash and cash equivalents	<u>428</u>	<u>(299)</u>	<u>203</u>	<u>331</u>
Cash and cash equivalents at beginning of period - net	3,566	4,090	3,791	3,460
Cash and cash equivalents at end of period - net	<u>\$ 3,994</u>	<u>\$ 3,791</u>	<u>\$ 3,994</u>	<u>\$ 3,791</u>

⁽¹⁾ The unaudited consolidated statements of cash flows for the three months and year ended December 31, 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 year ended December 31, 2003.