

**NORTEL NETWORKS CORPORATION**  
**Consolidated Statements of Cash Flows**

<i>(US GAAP; millions of U.S. dollars)</i>	<u>Three months ended</u> Dec 31, 2004	<u>Year ended December 31,</u> 2004                      2003	
<b>Cash flows from (used in) operating activities</b>			
Net earnings (loss) from continuing operations	\$ 96	\$ (100)	\$ 262
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	102	362	541
Non-cash portion of special charges and related asset write downs	4	4	87
Equity in net loss of associated companies	(2)	-	36
Current and deferred stock option compensation	21	76	42
Deferred income taxes	(33)	(45)	(50)
Other liabilities	87	277	161
(Gain) loss on repurchases of outstanding debt securities	-	-	(4)
(Gain) loss on sale or write down of investments, businesses and assets	30	(117)	(147)
Other - net	66	164	(45)
Change in operating assets and liabilities	(94)	(805)	(798)
Net cash from (used in) operating activities of continuing operations	277	(184)	85
<b>Cash flows from (used in) investing activities</b>			
Expenditures for plant and equipment	(88)	(282)	(172)
Proceeds on disposals of plant and equipment	-	10	38
Acquisitions of investments and businesses - net of cash acquired	2	(5)	(58)
Proceeds on sale of investments and businesses	7	150	107
Net cash from (used in) investing activities of continuing operations	(79)	(127)	(85)
<b>Cash flows from (used in) financing activities</b>			
Dividends paid by subsidiaries to minority interests	(9)	(33)	(35)
Increase (decrease) in notes payable - net	10	8	(45)
Proceeds from long-term debt	-	-	-
Repayments of long-term debt	-	(107)	(270)
Repayments of capital leases payable	(4)	(9)	(12)
Issuance of common shares	1	31	3
Issuance of prepaid forward purchase contracts	-	-	-
Net cash from (used in) financing activities of continuing operations	(2)	(110)	(359)
Effect of foreign exchange rate changes on cash and cash equivalents	94	88	176
Net cash from (used in) continuing operations	290	(333)	(183)
Net cash from (used in) discontinued operations	6	22	390
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>296</b>	<b>(311)</b>	<b>207</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>3,390</b>	<b>3,997</b>	<b>3,790</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,686</b>	<b>\$ 3,686</b>	<b>\$ 3,997</b>

*Please refer to our Annual Report on Form 10-K for the year ended December 31, 2004 including the Notes to the Consolidated Financial Statements*