

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

	U.S. GAAP		
	Three months ended December 31, 2002 <sup>(1)</sup>	Year ended December 31, 2002 <sup>(1)</sup>	Three months ended December 31, 2001
Cash flows from (used in) operating activities			
Net loss from continuing operations .....	\$ (248)	\$ (3,585)	\$ (1,826)
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 .....	163	705	722
Non-cash portion of special charges and related asset write downs .....	23	1,315	150
Equity in net earnings (loss) of associated companies .....	(10)	9	(4)
Stock option compensation .....	23	91	18
Deferred income taxes .....	(40)	(85)	(781)
Other liabilities .....	26	12	16
Gain on repurchases of outstanding debt securities.....	(60)	(60)	-
(Gain) loss on sale or write down of investments and businesses .....	(19)	(11)	551
Other – net.....	57	376	(433)
Change in operating assets and liabilities:			
Accounts receivable .....	115	1,008	1,137
Inventories .....	280	687	299
Income taxes .....	(17)	694	14
Accounts payable and accrued liabilities .....	(184)	(1,612)	(25)
Other operating assets and liabilities .....	(100)	(133)	162
Net cash from (used in) operating activities of continuing operations .....	<u>9</u>	<u>(589)</u>	<u>-</u>
Cash flows from (used in) investing activities			
Expenditures for plant and equipment .....	(46)	(335)	(187)
Proceeds on disposals of plant and equipment .....	50	236	57
(Increase) decrease in restricted cash and cash equivalents.....	189	(231)	-
Increase in long-term receivables .....	(20)	(267)	(29)
Decrease in long-term receivables .....	49	302	280
Acquisitions of investments and businesses – net of cash acquired.....	-	(29)	8
Proceeds on sale of investments and businesses .....	25	104	372
Net cash from (used in) investing activities of continuing operations .....	<u>247</u>	<u>(220)</u>	<u>501</u>
Cash flows from (used in) financing activities			
Decrease in notes payable – net .....	(29)	(318)	(215)
Proceeds from long-term debt .....	1	33	8
Repayment of long-term debt .....	(456)	(478)	(7)
Decrease in capital leases payable.....	(172)	(10)	(2)
Issuance of common shares .....	-	863	10
Issuance of prepaid forward purchase contracts .....	-	623	-
Net cash from (used in) financing activities of continuing operations .....	<u>(656)</u>	<u>713</u>	<u>(206)</u>
Effect of foreign exchange rate changes on cash and cash equivalents .....	58	74	(5)
Net cash from (used in) continuing operations .....	(342)	(22)	290
Net cash from (used in) discontinued operations .....	33	370	(132)
Net increase (decrease) in cash and cash equivalents .....	<u>(309)</u>	<u>348</u>	<u>158</u>
Cash and cash equivalents at beginning of period – net .....	4,170	3,513	3,355
Cash and cash equivalents at end of period – net .....	<u>\$ 3,861</u>	<u>\$ 3,861</u>	<u>\$ 3,513</u>

(1) The unaudited consolidated statements of cash flows for the three months and year ended December 31, 2002 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, 2002.