

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

	U.S. GAAP		
	Three months ended September 30, 2002 ⁽¹⁾	Nine months ended September 30, 2002 ⁽¹⁾	Three months ended September 30, 2001
Cash flows from (used in) operating activities			
Net loss from continuing operations	\$ (1,799)	\$ (3,337)	\$ (3,468)
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	158	542	844
Non-cash portion of special charges and related asset write downs	910	1,292	433
Equity in net loss of associated companies	5	19	6
Stock option compensation	22	68	32
Deferred income taxes	180	(45)	(1,063)
Other liabilities	16	(14)	79
Gain on sale of investments and businesses	(2)	(28)	(45)
Other – net	149	355	441
Change in operating assets and liabilities:			
Accounts receivable	349	893	2,076
Inventories	281	407	554
Income taxes	5	711	(91)
Accounts payable and accrued liabilities	(673)	(1,428)	1,135
Other operating assets and liabilities	19	(33)	7
Net cash from (used in) operating activities of continuing operations	<u>(380)</u>	<u>(598)</u>	<u>940</u>
Cash flows from (used in) investing activities			
Expenditures for plant and equipment	(81)	(289)	(259)
Proceeds on disposals of plant and equipment	110	186	131
Increase in restricted cash	(398)	(420)	-
Increase in long-term receivables	(37)	(247)	(175)
Decrease in long-term receivables	148	253	99
Acquisitions of investments and businesses – net of cash acquired	(4)	(29)	(14)
Proceeds on sale of investments and businesses	6	79	166
Net cash used in investing activities of continuing operations	<u>(256)</u>	<u>(467)</u>	<u>(52)</u>
Cash flows from (used in) financing activities			
Decrease in notes payable – net	(212)	(289)	(1,066)
Proceeds from long-term debt	1	32	1,778
Repayment of long-term debt	(16)	(22)	(56)
Increase (decrease) in capital leases payable	167	162	3
Issuance of common shares	1	863	3
Issuance of prepaid forward purchase contracts	-	623	-
Net cash from (used in) financing activities of continuing operations	<u>(59)</u>	<u>1,369</u>	<u>662</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(30)	16	12
Net cash from (used in) continuing operations	<u>(725)</u>	<u>320</u>	<u>1,562</u>
Net cash from (used in) discontinued operations	48	337	(136)
Net increase (decrease) in cash and cash equivalents	<u>(677)</u>	<u>657</u>	<u>1,426</u>
Cash and cash equivalents at beginning of period – net	<u>4,847</u>	<u>3,513</u>	<u>1,929</u>
Cash and cash equivalents at end of period – net	<u>\$ 4,170</u>	<u>\$ 4,170</u>	<u>\$ 3,355</u>

⁽¹⁾ The unaudited consolidated statements of cash flows for the three months and nine months ended September 30, 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 three months and nine months ended September 30, 2002.