

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

	U.S. GAAP		
	Three months ended June 30, 2002 ⁽¹⁾	Six months ended June 30, 2002 ⁽¹⁾	Three months ended June 30, 2001
Cash flows from (used in) operating activities			
Net loss from continuing operations	\$ (697)	\$ (1,538)	\$ (16,644)
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	185	384	2,069
Non-cash portion of special charges and related asset write downs	285	382	12,837
Equity in net loss of associated companies	10	14	116
Stock option compensation	21	46	25
Deferred income taxes	(331)	(225)	(955)
Other liabilities	7	(30)	2
Gain on sale of investments and businesses	(4)	(26)	(2)
Other – net	137	206	(84)
Change in operating assets and liabilities:			
Accounts receivable	371	544	1,435
Inventories	36	126	964
Income taxes	692	706	(428)
Accounts payable and accrued liabilities	(526)	(755)	677
Other operating assets and liabilities	28	(52)	354
Net cash from (used in) operating activities of continuing operations	<u>214</u>	<u>(218)</u>	<u>366</u>
Cash flows from (used in) investing activities			
Expenditures for plant and equipment	(105)	(208)	(291)
Proceeds on disposals of plant and equipment	32	76	20
Increase in long-term receivables	(103)	(210)	(113)
Decrease in long-term receivables	16	105	44
Acquisitions of investments and businesses – net of cash acquired	(6)	(25)	(50)
Proceeds on sale of investments and businesses	14	73	22
Net cash used in investing activities of continuing operations	<u>(152)</u>	<u>(189)</u>	<u>(368)</u>
Cash flows from (used in) financing activities			
Dividends on common shares	-	-	(63)
Increase (decrease) in notes payable – net	(66)	(77)	1,046
Proceeds from long-term debt	20	31	-
Repayment of long-term debt	(4)	(6)	(375)
Decrease in capital leases payable	(1)	(5)	(15)
Issuance of common shares	857	862	31
Issuance of prepaid forward purchase contracts	623	623	-
Net cash from financing activities of continuing operations	<u>1,429</u>	<u>1,428</u>	<u>624</u>
Effect of foreign exchange rate changes on cash and cash equivalents	52	46	(2)
Net cash from continuing operations	1,543	1,067	620
Net cash from (used in) discontinued operations	237	289	(463)
Net increase in cash and cash equivalents	<u>1,780</u>	<u>1,356</u>	<u>157</u>
Cash and cash equivalents at beginning of period – net	3,089	3,513	1,772
Cash and cash equivalents at end of period – net	<u>\$ 4,869</u>	<u>\$ 4,869</u>	<u>\$ 1,929</u>

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