

**NORTEL NETWORKS CORPORATION**  
**Consolidated Statements of Cash Flows (unaudited)**

	<u>Nine months ended September 30,</u>	
<i>(US GAAP; millions of U.S. dollars)</i>	<b>2004</b>	<b>2003</b>
		As restated
<b>Cash flows from (used in) operating activities</b>		
Net earnings (loss) from continuing operations	\$ (196)	\$ (239)
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	260	429
Non-cash portion of special charges and related asset write downs	-	87
Equity in net loss of associated companies	2	38
Stock option compensation	55	35
Deferred income taxes	(12)	(17)
Other liabilities	190	94
Gain on repurchases of outstanding debt securities	-	(4)
(Gain) loss on sale or write down of investments and businesses	(147)	(8)
Other - net	(288)	(618)
Change in operating assets and liabilities	(325)	(82)
Net cash from (used in) operating activities of continuing operations	(461)	(285)
<b>Cash flows from (used in) investing activities</b>		
Expenditures for plant and equipment	(194)	(105)
Proceeds on disposals of plant and equipment	10	22
Acquisitions of investments and businesses - net of cash acquired	(7)	(53)
Proceeds on sale of investments and businesses	143	51
Net cash from (used in) investing activities of continuing operations	(48)	(85)
<b>Cash flows from (used in) financing activities</b>		
Increase (decrease) in notes payable - net	(2)	(39)
Repayments of long-term debt	(107)	(267)
Repayments of capital leases payable	(5)	(9)
Dividends paid by subsidiaries to minority interests	(24)	(26)
Issuance of common shares	30	2
Net cash from (used in) financing activities of continuing operations	(108)	(339)
Effect of foreign exchange rate changes on cash and cash equivalents	(6)	97
Net cash from (used in) continuing operations	(623)	(612)
Net cash from (used in) discontinued operations	16	389
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(607)</b>	<b>(223)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>3,997</b>	<b>3,790</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,390</b>	<b>\$ 3,567</b>

*Please refer to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 including the Notes to the Consolidated Financial Statements (unaudited) and Management's Discussion and Analysis of Financial Condition and Results of Operations.*